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WPI Venture Forum Calendar of Events

December 16, 1997
The Reality of Virtual Companies

January 20, 1998
Structuring Your Team for Growth

All meetings in Kinnicutt Hall, Salisbury Labs (our usual location).

For a recorded announcement of the next program or to receive future mailings, call (508) 831-5821.

Directions to WPI Campus, Salisbury Labs, Room 115

From the East—Take Massachusetts Turnpike (I-90) to Exit 11A (I-495). Proceed north to I-290, then west into Worcester. Take Exit 18, turn right at end of ramp, then take an immediate right before the next traffic light. At the next light, proceed straight through, bearing right onto Salisbury Street. At the WPI sign, turn left onto Boynton Street. Parking will be on your right, behind Gordon Library. Salisbury Labs is up the hill across from the Library.

From the North—Take I-495 south to I-290. Follow directions as from the east.

From the South and West—Take Massachusetts Turnpike (I-90) to Exit 10 (Auburn). Proceed east on I-290 into Worcester. Take Exit 17, turn left at end of ramp, follow Route 9 west through Lincoln Square, straight onto Highland Street. Turn right onto Boynton Street. After crossing Institute Road, parking will be on your left, behind Gordon Library. Salisbury Labs is up the hill across from the Library.

THE WPI VENTURE FORUM

Promoting and serving technology-based entrepreneurial activity

Volume 7 No. 4
December 1997

The Reality of Virtual Companies

A look at the upcoming meeting

Tuesday, December 16, 1997
WPI Campus, Salisbury Labs
Registration: 6:00pm
Meeting Begins: 6:30pm
Admission Fee: $7.00

Thinking of the organization as an entity standing on its own is dysfunctional in today's strange, fast-moving, interlinked world.

A striking feature of the current economic expansion has been the absence of upward pressure on wages and prices. Although domestic labor markets are tight and capacity utilization remains above its long-run average, fierce global competition and structural shifts, such as the downsizing of the defense sector, limit the ability of firms to grant across-the-board wage increases or to raise prices. The need to increase efficiency, control costs and remain flexible drives firms' behavior. One manifestation of this drive is the growing use of non-permanent work arrangements and outsourcing of some operation and management functions.

A recent Manufacturers Alliance for Productivity and Innovation (MAPI) survey found that:

- 59% of the respondents said that the use of non-permanent workers and outsourcing will continue to increase among manufacturing firms over the next three years.
- While the use of non-permanent workers blurs the boundaries of a firm, outsourcing changes them, making certain tasks external that were previously internal. Survey respondents most often indicated specialized knowledge as a very important reason to outsource, although cost-effectiveness and flexibility also ranked high.
- Employers use non-permanent workers more to enhance flexibility than to achieve lower wage and benefit costs. However, they also will balance the benefits arising from access to specialized skills and the latest technology of the contractor against factors which add to the full cost of contracting for the service, such as a loss of control and additional monitoring costs.
- The decision to outsource any given function depends on the firm's strategic focus. In general, outsourcing functions are those that are transactions-based or highly specialized and are only needed on a case-specific basis. Executive, administrative and managerial occupations and sales occupations are filled, almost exclusively, by full-time employees.
- Manufacturing productivity, as measured by cost per hour, is currently overstated relative to estimates made prior to the increased use of non-permanent workers and outsourcing. On the other hand, the contribution of the manufacturing sector to the economy is currently understated relative to the estimates made prior the increased use of non-permanent workers and outsourcing.

Outside Resources

Our December meeting will explore this important trend and its application to start-up and emerging growth companies which are a principal focus of the WPI Venture Forum. Our guest speaker, Mr. Morey Kraus, President of t.Breeders, Inc. will discuss maintaining a lean organization, while acquiring and effectively using technical and material resources outside of the organization. Mr. Kraus will explore some of the key issues concerning a virtual company and outsourcing including:

- What incentives should be given to outside vendors and other contract personnel and how can their performance be measured?
- When are strategic alliances with larger companies important and what are the factors that can contribute to their success - or demise?
- Can the "virtual company" concept be reconciled with organization and team building, i.e. are there "core functions" that should not be outsourced?
- Is it a good concept for all circumstances and phases of a company's growth? Is its' success dependent on many variables, like company size, technological maturity and market structure? ▶

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December Meeting Sponsors—

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The mission of the WPI Venture Forum is to promote and serve technology-based entrepreneurial activity through education, networking, and recognition.

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Letter From The Chair

How Can We Help You?

Brian Dingman, Chair

These are interesting times for those of us working in or involved with technology-based businesses. The economy has been strong for some time and is expected to be robust for the foreseeable future. Employment is high. There are plenty of opportunities for creative technology entrepreneurial activity, yet there is also opportunity in ongoing technology businesses.

This economic climate is unique in the eight year history of the Venture Forum. When we began offering programs in the fall of 1990, the economy was not strong. In our earlier years of operation, we saw innumerable quality, experienced business people who had lost their jobs due to down-sizing. Clearly, times have changed dramatically.

Business models and communications have also changed. The ever-increasing rate of change in technology seems to create new industries overnight. The "discovery" of the Internet and the Web by businesses and consumers has changed the ways in which we conduct business, communicate and even sell and distribute products and services. Business is international and immediate. It seems that the only constant is change.

As with any business, the Venture Forum is continuously striving to determine its customers' needs and provide programs and information which meets those needs. As any of the Venture Forum volunteers can tell you, at every Executive Committee and working committee meeting of the Forum, we are constantly discussing and debating the make-up of our target market and our customers and the "products" we provide to our customers. In these times of dramatic change in technology businesses, it is critical for us to keep our finger on the pulse of our market and do our best to meet its needs.

Each of us involved with the Forum bring to this debate information we collect in our day-to-day business dealings, information from discussions at Venture Forum meetings and information collected personally through sources such as the media. We also survey our members at each of our programs through evaluation forms.

Almost three thousand people receiving this newsletter make up our current customer base. Many of you have been attending our events and

Ron Bouley

reading this newsletter for years. Your input to us is invaluable in determining the types of programs we present, the information we present and the manner in which we assist technology-based business people to achieve their particular goals.

As the Chairman of the Venture Forum, I am privileged to have this monthly opportunity to address our members. I urge you to let us know how we may best serve your needs. What program formats would you like to see? What topics should we address and what are the ways in which they should be addressed? How can we better meet your networking needs? Are you looking for more in-depth information, and if so, on what topics? Are we on-target, or off?

Please let us know. You may tell us on an evaluation form at any of our events or speak to one of the Executive Committee members personally. You can always reach us by writing to us at the address listed on the back cover page of this newsletter.

Please join us for this month's meeting to hear Maury Kraus, the President of t.Breeders, Inc. tell us how he has built a virtual company. We will also have a fascinating case presentation by Vitel, a local software company. See you then!

Brian Dingman is a partner in the intellectual property law firm Nields, Lemack and Dingman in Westborough, Massachusetts. Brian can be reached at (508) 898-1818, or by email at NLDlaw@aol.com **VF**

Sponsor's Corner

Don't Pay Tax On Venture Capital Gain– Reinvest!

by William J. Flynn, Executive Vice President, Mottle McGrath Braney & Flynn, P.C.

The start-up company you invested in back in 1994 just got a cash takeover bid from Mega Corp. for ten times the share price you paid. The deal is scheduled to close in 90 days. Your "Uncle Sam" will want his cut of 20% of any gain that you make and the state that you live in may want a piece, too.

But if the stock qualifies as Qualified Small Business Stock, (QSB stock) you have another alternative. You could invest the proceeds in QSB stock of another start-up within 60 days of the sale and elect to postpone the tax.

The Taxpayers Relief Act of 1997 (1997 Act) allows investors other than C Corporations to elect to postpone tax on gains from sales after August 5, 1997 of QSB stock if the original stock was held for six months and the proceeds are reinvested in other QSB stock within sixty days of sale. If the full proceeds are not reinvested, tax is imposed on the portion not reinvested to the extent there is a gain.

Qualified Small Business Corporation

Having to reinvest within sixty days of sale puts a premium on knowing whether or not your stock is QSB stock. A domestic corporation must have originally issued the stock after August 10, 1993, for money or property other than stock or as compensation for services (other than underwriting).

Also, the corporation's gross assets before and immediately after the issue date cannot have exceeded $50 million. This is measured generally by using the adjusted tax basis of the assets.

Corporations involved in activities developing, manufacturing or selling products such as computers, software and biotechnology generally qualify. Businesses providing accounting, legal, consulting and other professional services generally don't qualify. Investments in farms, hotels, natural resource extraction, banks, finance companies and similar entities do not qualify as well.

Qualified Active Business Test

For substantially all of the period the investor owns the QSB stock, the company must use at least 80% of its assets in one or more qualified active businesses. Assets used in futherance of a prospective active business qualify such as start-up activities or research and experimentation. Investments held to finance research also qualify. However, after the corporation has existed for two years, no more than half of its assets can be held for future research and working capital.

A corporation does not meet the qualified active business test for any period during which more than 10% of its assets consist of real estate not used in the active business. Also a corporation does not meet this test during any period in which 10% of its net worth consists of stock or securities (other than working capital) of a corporation that is not an operating subsidiary.

Two Strategies Available

As can be seen, many venture capital investments will qualify as QSB stock. Being able to defer tax after holding QSB stock only six months makes the availability of the deferral option very likely in many cases.

QSB stock acquired after August 10, 1993, also qualifies for the 50% exclusion of any gain realized from its sale, if, among other requirements, it has been held for five years. Since the stock must be acquired after August 10, 1993, and held for five years to qualify for the exclusion, no sales of QSB stock will be eligible for the 50% exclusion until at least August 10, 1998.

However, now, because of the 1997 law change, if the investor has held the QSB stock for at least six months, deferring tax on the gain can be realized by reinvesting in other QSB stock. The investor will be allowed to count the period he held the first QSB stock as part of his holding period for the second QSB stock and thereby qualify for the 50% exclusion of gain sooner on the sale of the second QSB stock.

Summary

Investors in QSB stock now have two special provisions in the tax law to use to their advantage. The tax on gains can be deferred by investing in new QSB stock or if the stock has been held for five years, the investor can elect to recognize the gain and take advantage of the 50% exclusion. Also, if an investor wants to hold QSB stock five years to get the 50% exclusion but is forced to sell early, there is the option to avoid current tax by reinvesting in other QSB stock. The availability of these two options should make venture capital investing just that much more attractive and rewarding.

William J. Flynn, CPA, is Executive Vice President with Mottle McGrath Braney & Flynn, P.C., a certified public accounting firm with national and international experience. Mr. Flynn can be reached at 508-753-6500 or via e-mail at MMBFPC@AOL.COM. **VF**

Identifying Your Distribution Channels

by Floranne Reagan, Principal, EXXEL, Inc.

On October 21 we were treated to an example of professionalism under pressure. One of the two speakers for the evening, Nancy Muckle, was not able to attend because of illness. Norm Brust, President of NTB Associates and our moderator for the evening, learned about our dilemma just hours before the session was to begin. Under the rubric "Success is implementing Plan B," Norm ably gave the attendees an extemporaneous summary of distribution channels.

A Definition

What is a distribution channel? Norm's definition: A distribution channel is a method of getting your product or service in front of a customer at the right place and time to get them to decide to buy it.

The key to channel selection is the amount of time it takes to serve the customer. The extremes are zero time for off-the-shelf retail sales to months for a consultative sell where you must assess customer's needs and educate them about the product or service that meet those needs.

According to Norm, selecting the correct distribution channel significantly influences the success of a company, perhaps even more than a decision for a key manager. Without the sale, there is no reason for the company's existence. The most difficult part of sales and marketing is convincing technology-oriented management of the need for the money and time to plan a marketing effort.

Norm described consultative selling as suited to low volume product, customed designed to a customer's needs, and then gave an example of a local company that designs unique automated equipment for assembly lines. This customer requires more services than those that buy standard, off-the-shelf products.

Seven Types Of Distribution Channels

- *Direct sales force.* The advantage of this approach is that the individual is dedicated to selling only your product or service. However, because they are employees, you have all the corresponding overhead expenses. Often there is considerable lag time between the hire date and the first sale.
- *Independent manufacturer's reps.* This is a relationship between a business and a salesperson who shows your product or service, along with other products and services on their line card and receives a commission when your sale is made. The cost is low until the sale is realized. The relationship must be nurtured, that is, the rep must be trained about your merchandise and be provided with marketing materials and advertising support. Norm suggests that you look for reps with synergistic products on a good line card. Overall though, this is a less costly alternative to having a captive sales force.
- *Distributors.* These are specialists who purchase and resell products to a particular industry.
- *Brokers.* Brokers are similar to distributors but do not own what they sell.
- *Value added resellers (VARs).* This channel increases the worth of your product with some extra component that adds value to the item before selling it to the ultimate customer. VARs are useful when some customization of your product is needed.
- *Strategic alliances*. Using this channel, two or more parties join forces to sell a product. The practice of using Intel chips in a particular computer, then marketing computers with the slogan "Intel Inside," is an example of an OEM strategic alliance.
- *Direct marketing.* Catalogues, mailings, etc., are examples of this channel.

Norm's final point: once you've chosen a distribution channel, the selection of the PEOPLE in the channel is important. In order to build credibility, a new company needs a stable distribution channel i.e., a relationship between the person in the channel and the customer. There could be a six month gap in sales if you have to change the channel so doing it right the first time is critical!


Ron Bouley

Norm Brust explains distribution channels.

Once a distribution is in place, SUPPORT it with training, brochures and advertising. Stick with it, attend to it and develop a long-term relationship.

Rules For Distribution Channels

Jack Derby, President of Derby Management Consultants then presented his techniques for mastering distribution channels. Jack presented a comprehensive picture of why the channel selection is such a critically important decision and he organized his presentation around rules for channel selection. As a management coach for venture funded companies, Jack teaches that "sales is a math game - it's a science. No one is born as a good sales person or channel selector."

Jack's Rules include:

1. Experienced management is an absolute. The person in charge must be experienced in the channel.
2. Margin is above all. It must be adequate to support sales expenses two years out.
3. Flexibility is vital. You will need a different mix of channels in different regions.
4. Find how many "Links in the Chain" exist between the manufacturer and the customer.

Channel Costs

1. *Direct sales:* over $125,000 per person annually, including benefits and supplies.
2. *Reps:* commission varies by industry from 5% in electronics to 10% in medical products.
3. *Distributors:* commissions varies from 26% to 40%.
4. *National accounts:* offer discounts.

Jack used theory and real business examples (medical instruments, printer ports, computer components and food products) to explain the following four rules for channel selection.

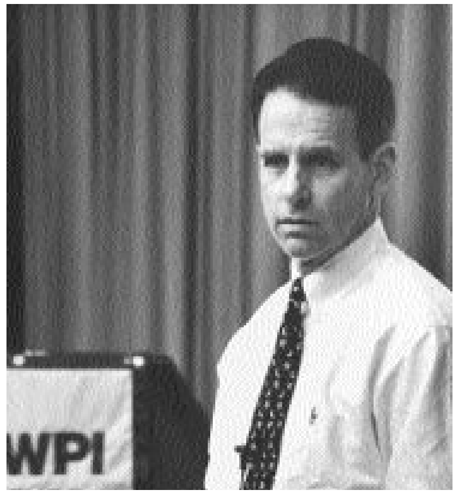
1. How much money do you have to invest in a particular channel?
2. What margins do you need tomorrow? Two years from now?
3. What geography do you need tomorrow? Should you go national or stay regional?
4. How technical is the sale? In a consultative sale, you have to teach the customer how to use the product.

Experience counts - your most important hire is the sales and marketing person. If you raise $1million in your first financing round, allocate $300,000 for sales and marketing expenses. Hire consultants early, use them heavily and expect to bring them back later. Jack suggested that at least one member of your board be experienced in sales channels. He also recommended allocating about $20,000 for semi-annual customer surveys.

Above all, Jack stressed the importance of margin, and called it "the name of the game". This is too often overlooked in the quest for sales. In order to control margins, you must understand the flow of cash and what the channels expect - from 6% - 7% for computers to 100% for apparel.

Disintermediation

Today, your marketing message to the end user is carried by a national and regional distribution system which uses some of your margin. A discussion of disintermediation and its impact on distribution channel selection in the future, was



Ron Bouley

Jack Derby responds to a question from the audience.

very interesting. Disintermediation refers to the removal of any middle person in the sales process. As an example, Jack explained how he purchased an automobile via the Internet without ever speaking to a salesperson, negotiating or visiting a bank. Disintermediation allows you to break the links in the chain, look for the most efficient connection to the end user, control (and keep) the margin, and control the marketing message. Before undertaking disintermediation, locate the inefficiency of the system you are using today. Why does the customer care? Will there be a loss of the personal touch? Who gets the benefit of the change? Can you lower the price of the product? Is the business better without the links?

Some examples of disintermediation are outlet stores, catalog sales, insurance, Auto-by-Tel and other Internet sales companies where there are no reps, no retailers and no wholesalers. What's next? Three possibilities are customers who are suppliers, suppliers who are customers and more electronic commerce.

Questions And Answers

After a networking break, Norm, Jack and Steve Davis of Davis Management served as a panel to address questions about distribution channels from the audience.

"How do you make sales people part of the team?" In order for technical people to appreciate the importance of selling, you have to introduce them to the customer. The job of the CEO is to sell.

"How does a rep help a technical company president appreciate the value of sales and marketing?" Norm Brust replied that it's a long slow process. Steve Davis added that most companies fail when the founders can't let go. Jack Derby said that some of these are "lifestyle" companies that produce a comfortable living for the owner but which won't grow. Norm suggested that the rep ask what the entrepreneur really wants - lifestyle or a "hockey stick" growth curve.

"What is the legal cost of a distributor agreement?" Steve doesn't believe in exclusivity ad infinitum. Some distributors will take your product on consignment. Jack said that you don't need to spend a lot on legal fees - it's a relationship in essence. The agreement is really that of the distributor - with perhaps a side letter. It's the manufacturer's job to show how it can make money for the distribution channel; to do this the entrepreneur needs to know the chain all the way to the ultimate customer. Norm added that it's really an agreement on how to part company. Stan Kay hitchhiked on this idea by calling the distributor agreement a "prenuptial agreement with a postmortem consequence". Jack stated that rep agreements are much more important than those with distributors.

"Where does the entrepreneur find expertise?" Jack recommended that you ask your venture capitalist whom they have used. You can also ask for free help from successful entrepreneurs.

"How do you decide on the distribution channel?" Steve recommended looking at the entire chain from the end user back to the shipping dock. Ask how the end user makes the decision to buy. Jack suggested that you look at the price point and see what you can afford. Stan Kay stated that most successful entrepreneurs think about the sales process and how to get their product into the hands of customers.

"What is the value of a Web site?" Jack explained by example how his company's Web site lets the customer get comfortable with the company.

Floranne Reagan is a Principal of EXXEL, Inc., a management consulting firm located in Natick, Massachusetts. She leads the company's strategic human resource practice and can be reached at 508-651-3377. **VF**

Business Basics

Business Development — Working ON (not just in) The Business

by Cynthia Sechrest, CPA and Jean Sifleet, CPA, JD

Working ON the business means developing strategies and systems for improving the overall operation of the business. Too many business owners spend all their time working IN the business, attending to the multitude of details and issues, getting lost in the trees. Working ON the business is similar to taking time out to look at the forest and develop systems to improve profitability and enable the business to grow.

Smooth Solutions provides custom software solutions. As we've discussed in prior articles, the company has been experiencing some growing pains. The owner, Carla Smithson, has been working almost around the clock trying to keep up with the paper work and recently found herself with an unexpected cash flow crunch. Realizing that she is really good at writing software but not so interested in accounting and administrative work, Carla decided that it was time to get help.

Review And Plan

Carla decided to try a management team approach ON her business. By getting advice from business advisors, she has learned to take time every month to review the results of the prior month and make plans for the coming month. This approach emphasizes systems as a means of streamlining operations and improving efficiency and effectiveness.

Carla tried the suggestions from her advisors about improving cash flow. She implemented a number of suggestions presented in our last article, including requiring deposits on all projects, invoicing promptly, accepting credit cards and following up promptly with all customers who are slow to pay. Carla could see results the very first month. Next she started budgeting and meeting monthly with her advisors, to review the actual results compared to her projections. She feels she has a much clearer picture of what's going on in her business. Gradually, Carla has put systems in place to get the paperwork side of the office in order.

Developing The Business

As Carla continued to use this approach, she realized that working ON her business was more about developing her business than it was about record-keeping. Haphazard record-keeping had been slowing her down but once she got it under control, she had meaningful information to work with. Carla was interested in learning what advice her business development specialists would provide after reviewing the current month's cash flow.

When Carla came for her monthly meeting with her advisors, she had good news to report. Carla explained that the systems had made her work so much more efficient that she felt freed from administrative details. She said that cash flow was much improved, since she was requiring deposits from all customers before work was started. Now that the billing and paperwork are being handled in a systematic way each month, she was spending more time thinking about how to improve the business.

Originally, Carla had worried that all this systems work would take time away from revenue generating projects. She started her own business to get away from that "administrative management stuff". She wanted to run her business in a very streamlined manner so that she could focus on the software work that she loved.

Carla said, "I can clearly see that systems make it possible to handle more work efficiently and that with systems in place, I can make more money. That's what you mean about working ON (not just IN) the business and that's what I want to talk about."

Analyze The Data

For this month's meeting, Carla has good data to work with. With the record-keeping under control, Carla has good reports and could really talk with her advisors about how to analyze the data. The financial and operational data of a business are a gold mine for information about how to develop your business if you ask the right questions and take the time to examine the information.

Using Carla's last year's tax return and the current year's financial summaries, her advisors could help Carla analyze the business. With their help, she looked at the number of projects and customers that were handled. They discussed the good news and the bad news. How many new customers had been developed and how they had found Carla's business (referral, networking, marketing…). How many customers had been lost and why.

Next they analyzed the type of projects and their profitability. Again, Carla's team looked at the good news and the bad news. Some projects were very successful and some were not. Carla really wants to learn from these experiences and is willing to solicit customer feedback. Carla also wants to better understand the few customer projects that had been very difficult.

Since it's much easier to do repeat business with an existing customer than it is to get a new customer, Carla wants to attract more projects from existing customers. Carla just wants to be sure that she attracts more of the type of projects that she wants (fun, profitable…).

Action Plans

As they concluded their monthly meeting, Carla developed a list of the follow up actions and began planning the agenda for the next month's meeting. She was finding this approach very workable – each month she sets aside a few hours to meet with her team and work ON the business. She found reviewing the actuals and looking at projections on a monthly basis very helpful. This was much better than just looking at her business once a year at tax time. With the advisors' "once a month" approach, Carla finds that her business is growing in manageable steps.

Subsequent articles will address how Carla works with her advisors over time to develop her business. Carla has decided to focus next on better understanding her customer data. We'll talk more about how Carla can obtain customer feedback and better understand the cost structure and profitability of her projects.

Cynthia Sechrest, CPA and Jean Sifleet, CPA and JD, are principals in the business consulting group, DCG, located in Devens, Massachusetts. The firm specializes in business development systems and services. They can be reached at 508-772-6332. **VF**

WPI Venture Forum Presents…

Seminar Series

Business Plan Workshop

Keys to Developing a Successful Business Plan: Hands-On Seminar Series

Beginning Thursday, February 26, 1998, the WPI Venture Forum will conduct a six night workshop on "Developing Your Business Plan." This hands-on, interactive session will be facilitated by Robert Creeden. Mr. Creeden is a Vice President with the Massachusetts Technology Development Corporation, an early-stage venture capital firm focusing on technology-based companies in Massachusetts.

The program will be offered one night per week over six consecutive weeks, including one evening devoted solely to the topic of raising capital! Each session will last two hours and will be held on the campus of WPI. Participants will work with Mr. Creeden and other facilitators on the development of their business plan. The sessions will be both tutorial and interactive in nature, discussing the objectives, components, and format of a good business plan, with time for individual attention given to participants.

Due to the interactive format of the workshop, a limited number of companies will be allowed to participate. The fee for all six nights, including workshop workbook and other materials is $125.

Workshop sessions will be held on Thursdays, beginning in February: February 26, March 5, March 12, March 19, March 26 and April 2, 1998.

This is the perfect training ground if you plan on entering the WPI Venture Forum $10,000 Business Plan Contest, held annually.

If interested, please fill out the registration form below and mail with payment to:

WPI Venture Forum
c/o WPI Alumni Association
100 Institute Road
Worcester, MA 01609

Business Plan Workshop Registration

Name ____________________

Company ____________________

Address ____________________

City, State, Zip ____________________

Phone ____________________

Forgery, A Costly Business Expense

by Jean Caya Bancroft

Your signature is one of your most precious possessions. It, like the rest of your handwriting, is an imprint that can be identified as belonging exclusively to you. Yet, the trend toward a paperless society is eroding the need to be identified by this personal imprint. We can shop by phone, buy gasoline, trade stock and make a bank withdrawal with nothing more than a verbal or plastic indicator of the authenticity of those transactions. PIN numbers and similar devices are replacing signatures as our personal imprint.

Furthermore, situations where signatures are required (ID cards, checks, loans, leases, wills, credit applications, insurance claims, etc.) are not as carefully monitored as they once were. Many large businesses are insured against losses from bad paper and no longer follow up on forged checks, credit card transactions and other fraudulent writing. On the other hand, many small businesses prefer to absorb the cost of bad paper rather than to spend the time and money required to pursue the forger. Unfortunately, forgers are all too aware of these opportunities for fraud by writing.

What Is Forgery?

Forgery or fraudulent writing is the act of fashioning or reproducing writing for fraudulent and/or illegal purposes. There are three kinds of fraudulent writing: simple forgery, tracing, and freehand copying. In a simple forgery, forgers use their own disguised writing under the pretense of being another person. Forgery by tracing is produced by using carbon paper, transmitted light, pressure tracks or other copying techniques to copy someone else's writing. In forgery by freehand copying, the forger attempts to "draw" freehand by looking at an authentic sample, called a handwriting standard, of someone else's writing. Some forgers have a natural talent for freehand copying due to their particularly well-developed eidetic memory. Eidetic memory is the faculty to create a visual image of an object and reproduce it on the paper as if by tracing. Writing itself isn't the only aspect of "bad paper" or forgery.

Document fraud is another form of forgery that is increasing rapidly. With today's sophisticated scanning and photocopying techniques, possibilities abound for transferring authentic looking signatures onto falsified documents. It's amazing how frequently original wills or deeds "disappear" when families dispose of estates. In these cases, a handwriting expert is asked to determine if the signatures are authentic. Usually, they are. It's the document that has been forged. Unfortunately, it can be difficult or even impossible to determine from the second, or even first, generation photocopy if the document is a composite of originals or an original. This is because the photocopy has been made from a mock-up of a newly prepared document on which authentic signatures taken from another document have been super-imposed by photocopy or scanning. This is only one example of document fraud. There are many famous cases of both fraud by handwriting and document fraud that remind business owners of the need to protect themselves from these costly crimes.

Who Forges?

There are two categories of forgers: the professional and casual forger. The professional usually knows the law, owns light boxes and other useful equipment, has an eidetic memory and rarely gets caught easily. The casual forger may be a petty criminal, an employee with financial problems or a person cashing a spouse's check. The professionals usually forge many checks or documents over long periods of time, but rarely pass the checks themselves. The casuals usually both forge and pass the documents in circumstances which may not lead to arrest or conviction. Many forgery cases are settled out of court; very few involve restitution.

How can you protect yourself and your business?

There are two questions to ask yourself about fraud by writing. "What can I do to protect myself and my business from the high cost of accepting forged checks, applications and other documents?" and "What can I do to protect myself from someone who elects to forge my writing?"

Let's consider the first question. Training employees on how to recognize or at least be alert to fraudulent writing is Step One. Step Two is to require adequate identification which corroborates the signature (or writing sample) being presented on a check or document. The best identification is a signed photo ID. Step Three is to require that signatures (or writing) be authenticated and/or duplicated in the presence of a trained person whenever possible. Step Four is to provide proper forms and conditions under which you secure the standards by which you authenticate signatures.

Problems with forms are self-inflicted and come in two variations. The first I call the Bad Start. I'm sure all of us have been asked to complete an application for a loan or a job while seated at a desk piled high with advertising literature. If this isn't bad enough, we're expected to use a pen chained to the desk to fill in blanks far too narrow and short for the information requested. To avoid this problem, provide comfortable seating, an untethered pen, and large unlined areas for important information like signatures, dates, and addresses. This is the only way to get good writing standards. Without a good writing standard for a job application, loan or safe deposit box, your business cannot get a satisfactory identification for an expert should the need arise.

The other variation on this theme is the Once Is (Not) Enough syndrome. Safe deposit banks are especially prone to his condition. Clients open accounts or safe deposit boxes with authentic signatures. These become the handwriting standards which an expert may be asked to use as verification of a current signature thirty years later. Handwriting changes over time, especially between childhood/puberty into adulthood or adulthood into frail old age. Even though handwriting retains many significant characteristics throughout life, one signature taken at 15 will not be adequate verification of a questioned signature written at 35. A simple way of overcoming this problem is to ask for updated signatures every seven to ten years. This process helps not only the business, but also the individual whose signature may later be forged or questioned.

The second question is a little trickier. The essential rule for protecting yourself from forgery is to write clearly and legibly at all times. It is much easier to forge illegible writing than clear, smooth, free-flowing movements. Update your signatures on long term documents like bank accounts, long term investments and safe deposit boxes. Be very cautious about signing petitions and similar documents presented to you by strangers. Always ask for the carbons of your credit card receipts. These are gold mines for forgers. Be conscious of ploys used by those seeking a copy of your signature or writing. ▶

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Virtual Companies

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Our Speaker

Mr. Kraus is very qualified to discuss this topic. He founded t.Breeders in 1994 to develop a novel bioreactor which has the ability to selectively expand rare populations of cells, including hematopocitic stem cells for bone marrow replacement therapies as well as other cellular, and gene therapies. Mr. Kraus and his company have evolved through many of the phases and challenges that a start-up company faces, including the engagement and retention of skilled technical and managerial assistance, and the development of key proprietary technologies for his company, both from internal as well as external sources. Mr. Kraus has a Master of Science degree from WPI, and he is presently a Ph.D. candidate in its interdisciplinary Chemical Engineering and Biotechnology program. He has also taught at WPI, where he was awarded the Teaching Assistant of the Year in 1994.

Case Presentation

Ms. Tana A. Scouras, CEO
Vitel Software, Inc.
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Vitel Software is a software development company specializing in telecommunication applications. Vitel has developed unique, proprietary software products that assist companies with the management of their telecommunications systems, networks and expenses. Even in their early stage, original equipment manufacturers like Lucent, Octel and Centigram have recommended and, in some cases, distributed Vitel's products. Since its inception, Vitel's customer base has grown to more than 100 of the largest U.S. corporations, including Fortune 500, financial institutions, government, health are and service organizations.

Vitel currently has several products that collect, organize and report on statistics for voice mail systems. Vitel also provides custom software development and consulting services for telecommunication projects for Fortune 500 companies. Vitel is currently developing voice-processing tools for the PBX and telephone market and also develops custom telecommunications applications for large corporations.

Vitel's management team consists of experienced telecommunications and engineering professionals, balanced with senior management executives with experience in running software corporations.

The Market

The U.S. telecommunications industry sold over $60 billion of equipment in 1996, growing 16% in 1995. This included $1.6 billion in voice mail and $4 billion in the PBX market. The international market for voice messaging is growing at a substantial rate, although the size is approximately one-half of the domestic market. The major players in this industry have concentrated on the hardware and technology aspects of the industry and left the management tools for others to develop. The continuing complexity of the communications business will create a growing demand for new and better telecommunications management and reporting tools.

Issues For Panel

Vitel is seeking private funding to develop and introduce new products, create a corporate infrastructure to expand its operations, particularly in the international sector and to begin coordinated marketing activities. A panel of three experts in the communications field will review the Vitel business plan with the company and the audience after their presentation. Particular areas that will be addressed include the method of financing, the strategic plans for the company and international marketing concerns. **VF**

Forgery

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Tips for Avoiding Forgers Ploys

- Don't allow yourself to be distracted by the writer while you are verifying signatures or writing samples.
- Question any check which has errors in numbers/written figures, that use different pens, have writing on the face of the check and have multiple endorsements that look similar.
- Read everything you sign. It's not uncommon for an executive, harried auto lessee or recent widow to be handed a sheet of papers requiring signatures on the lower portion and for that individual to merely lift the bottom of each sheet and sign without reading the document.
- Don't sign a document which is on top of a soft surface like a blotter or pad of paper. It's easy to "lift" a copy of a signature from the second sheet on a note pad or a sheet of paper placed under the sheet being signed.
- Don't lend your credit cards, driver's license, library card or other signed membership cards to friends and family.
- Don't allow other members of your family to endorse your checks with your signature and don't endorse theirs. Remember, signing someone else's name when their signature is required is illegal, even if the individual agrees to allow you to do that.

Pursuing a forgery case can be time consuming and costly. It's not unusual for a handwriting expert to be one of two or more experts on a case which runs for several years and costs many thousands of dollars. Don't let this happen o you.

Jean Caya Bancroft has been a handwriting expert since 1970 and has given opinions on cases throughout New England. Jean is also the owner of Wordwright Productions, specializing in assisting small businesses with managing and marketing issues. Jean can be reached at 781-769-2146. **VF**