WPI Venture Forum

Worcester Polytechnic Institute
Alumni Association
100 Institute Road
Worcester, MA 01609
(508) 831-5821

CHANGE SERVICE REQUESTED

WPI Venture Forum Calendar of Events

December 15, 1998 - Directors/ Advisors/Mentors - Your Secret Weapons

January 19,1999 - Up-Front Exit Strategies - The Journey's Summit

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

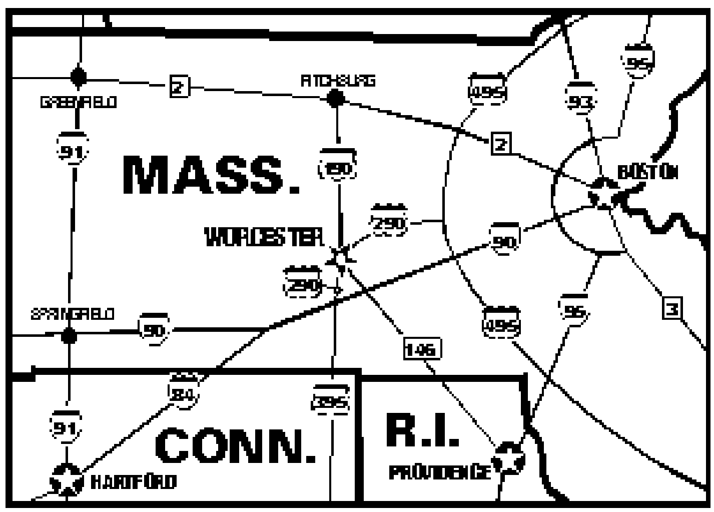
For a recorded announcement of the next program or to receive future mailings, call (508) 831-5821.

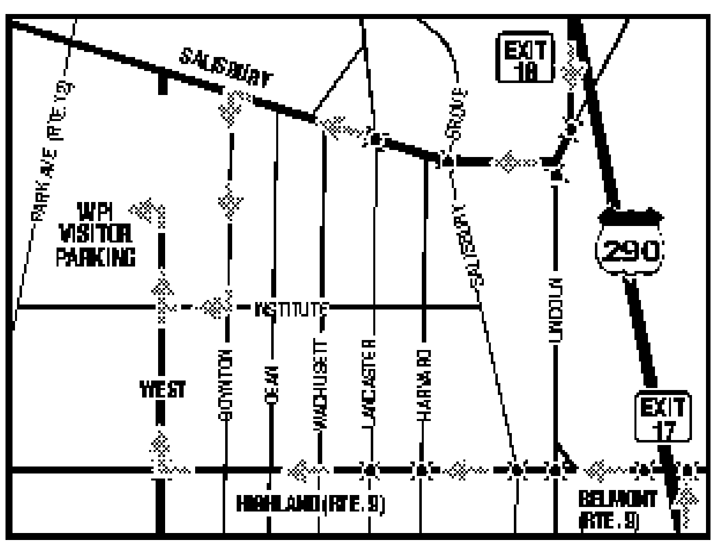
Directions to WPI Campus, Salisbury Labs, Room 115

FROM THE EAST:
Take Mass. 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 an immediate right before next traffic light. At next light, proceed straight through, bearing to the right on Salisbury St. At the WPI sign, turn left onto Boynton St., then right onto Institute Rd., then right onto West St. Visitor parking is on the left after footbridge.

FROM THE NORTH:
Take I-495 south to I-290. Follow directions as from east.

FROM THE SOUTH AND WEST:
Take Mass. Turnpike (I-90) to Exit 10 (Auburn). Proceed east on I-290 into Worcester. Take Exit 17, turn left at end of ramp, follow Rte. 9 west through Lincoln Sq., straight onto Highland St., then right at light onto West St. and through first intersection. Visitor parking is on the left after footbridge.





WPI Venture

VENTURE FORUM NEWS

Promoting and serving technology-based entrepreneurial activity
www.wpiventureforum.org

Volume 8 No. 3
November 1998

Directors/Advisors/Mentors – Your Secret Weapons

A look at the upcoming meeting

advisors, and mentors at the right time will surely put you on a path to success.

As a business founder, owner or officer, you find yourself asking several questions. Does my company need Directors or Advisors or Mentors or a combination thereof? What role should each play in my company? Does the need for one over the other change depending upon what stage my company is in? How does my company recognize what is right for it now? How do I go about attracting Directors or Advisors that make my company look good – the type that lend credibility to my company? If my company is at the seed stage and there are just a few of us, do we really need Directors or Advisors or Mentors? Don't we just need Directors if we are going out for capital? My friends who invested in my company are all small business people and they are all interested in being Directors, so my company is all set, right?

Many questions arise for a technology company that is concentrating on perfecting its product regarding choosing an Advisory Board and/or a Board of Directors. The initial team or individual knows the technical area and market of the company and may have plenty of entrepreneurial savvy, but often is not seasoned. Or, the company may have little or no business expertise in house to draw upon. How does the company go about filling this need? How does a company recognize and enlist appropriate expertise? Our December Forum will help the startup company begin to understand the significance of an Advisory Board and of a Board of Directors and will encourage thought provoking discussion about the needs of the individual company.

Continued on page 7

November

Meeting Sponsors–

Coopers & Lybrand

and

Mirick O'Connell

VENTURE

The mission of the WPI Venture Forum is to promote and serve technology-based entrepreneurial activity and economic growth in the region by increasing the business and financial knowledge of the participants through sharing experiences with entrepreneurs as well as area business, financial and educational leaders.

EDITOR
Nancy McKenna (508) 793-7615

ADVERTISING
Richard Gaudette (508) 752-5691

SPONSORS
Banner & Witcoff, Ltd., patent law
Bowditch & Dewey, general law
Cirrus Technology, Marketing & Web Development
Coopers & Lybrand, accounting
Fleet Bank, banking
Iandiorio & Teska, patent law
Massachusetts Technology Development Corp., venture capital
Mirick O'Connell, general law
Mottle McGrath Braney & Flynn, PC, accounting
Weingarten, Schurgin, Gagnebin & Hayes LLP
Zero Stage Capital

WPI VENTURE FORUM EXECUTIVE BOARD
Brian Dingman, Chair
Shari Worthington, Vice Chair
Paul F. McGrath, Treasurer
Mark J. Conoby '83, Clerk

McRae C. Banks
Norman T. Brust
Robert J. Creeden
Stephen N. Davis
Sharon C. Davis
William P. Densmore '45
Jeffrey L. Donaldson
Martina Gorski-Strong '84
Robert E. Hokanson
Peter D. McDermott '73
Nancy McKenna
Mark Parish
Richard H. Prince
Pamela Sager
(Year indicates WPI graduation date)

WPI VENTURE FORUM COMMITTEES
Business Plan Contest:
Pamela Sager (508) 435-8787
Marketing Committee:
Steve Davis (508) 528-7571
Monthly Programs:
Mark Parish (508) 520-9586
New Program Committee:
William P. Densmore '45 (508) 753-2500
Online Services:
Shari Worthington (508) 755-5242
Radio Program:
Robert E. Hokanson (508) 869-2984
Sponsorship: Robert J. Creeden (617) 723-4920

WPI VENTURE FORUM OFFICE
phone: (508) 831-5075 or
Email: ventureforum@WPI.EDU

WPI Venture Forum ©1998, A monthly publication of The WPI Venture Forum and the WPI Alumni Association, 100 Institute Rd., Worcester, MA 01609, (508) 831-5821. Volume 8, No. 4, December 1998.

Letter From the Chair

Sharpen Up Your Golf Game

by Brian Dingman

Being a patent attorney, I am frequently exposed to both interesting and off-beat ideas. I have recently encountered a patent which deserves mention.

U.S. Patent No. 5,616,089, is entitled "Method of Putting". The patent, which issued in 1997, provides (among other rights) that the patent owner has the exclusive right to use within the United States, the invention claimed in the patent. One can only imagine that the patentee devised a way to sink all those difficult putts and wanted to make sure that his opponents couldn't use his method to beat him at his game! Remember: "drive for show, putt for dough"!

The actual invention protected by the patent is set forth in the patent "claims", the first of which reads as follows:

A method of gripping a putter comprising the steps:

gripping a putter grip with a dominant hand;

placing a non-dominant hand over an interior wrist portion of the dominant hand behind a thumb of the dominant hand;

resting a middle finger of the non-dominant hand on the styloid process of the dominant hand;

pressing a ring finger and a little finger of the non-dominant hand against the back of the dominant hand;

pressing the palm of the non-dominant hand against a forward surface of the putter grip as the non-dominant hand squeezes the dominant hand.

The inventor, a Mr. Miller, is the only person in the United States who can use the method. Perhaps, though, Mr. Miller has aspirations of licensing the method to Tiger Woods, in order to allow him to shave a few more strokes off of his game. Imagine receiving a 5% royalty off of those winnings! What an interesting world we live in.

While on the subject, I decided to take a look at some related patents. A similar patent (4,605,228) issued in 1986 to a Mr. Guendling, Jr. The primary claim of that patent reads as follows:

A method of putting a golf ball, comprising the steps of selecting a putting club having a shaft which can be held vertically in the same vertical plane as the vertical midline of a golf ball in position for putting toward the cup and a selected aiming point which is between the ball and the cup in a selected path of travel which is intended to enable the ball to roll into the cup, holding such club shaft at one side in such vertical position with only the hand on that side gripping said club shaft, facing forward in the direction of the said selected path of travel with the hand on the opposite side free, swinging said club with said one hand in a way whereby said shaft thereof remains substantially in said vertical plane throughout said swing, and striking said golf ball with that portion of the striking surface of its club head which is in line with the axis of said club shaft impacting against the golf ball at its said vertical midline which lies in said vertical plane to cause said ball to roll along said selected path of travel substantially in said vertical plane until it passes over said selected aiming point.

I don't know about you, but if I tried that putting stroke, my ball wouldn't end up anywhere near the hole. On the other hand, almost none of my golf strokes cause the ball to go anywhere near the hole, so I guess that Mr. Guendling's method would probably be as good for me as any other method.

The biggest problem these patents will create for me is this: next time I'm on a green, lining up my putt, and probably right through my backswing, I'm going to be thinking about ensuring that I don't use one of these patented methods. As surely as the sun will set tonight, I guarantee that this alone will cause me to miss the cup.

See you at the driving range! **VF**

Sponsor's Corner

An Assist from Uncle Sam – R & D Credits for Business

By Eric J. Newman, CPA, Mottle McGrath Braney & Flynn, P.C.

Whether your company is in the start-up phase or is well established, there is one area where both the Federal and State (Massachusetts) governments will provide tax relief. The research and development credit, which recently was extended, can assist a business in reducing the cost of increased efforts devoted to research and development. With a little bit of extra bookkeeping, a substantial tax savings is available. Let's get to the details.

Background

The federal government will allow a 20% credit for an increase in research expenditures over a base period amount. Massachusetts will also allow a credit of 10% of the increase. Any credits not used in the current year can be carried back against the federal tax of earlier years and carried forward to be used against future years taxes for federal and Massachusetts tax purposes.

The Internal Revenue Service (IRS) supports the use of the research and development credit which is a simple calculation. An alternative calculation method is also available.

If the credit has been overlooked in the past, a company may utilize the credit for three prior years by amending tax returns; however there is a lapse in coverage for research incurred during the period July 1, 1995 through June 30, 1996.

Definitions

The research and development credit has been extended through June 30, 1999 for all qualified research expenditures as defined under Section 174 of the Internal Revenue Code. Qualified research expenditures are defined as costs for research undertaken for the purpose of discovering information which is technological in nature and the application of which is intended to be useful in the development of a new or improved business component of a company and substantially all of the activities constitute elements of a process of experimentation. A business component means any product, process, computer software, technique, formula or invention which is to be held for sale, lease or license, or used by a company in a trade or business.

Research is treated as conducted for a purpose and therefore qualifies for the credit if it relates to a new or improved function, performance, reliability or quality. Research will not be considered as conducted for a purpose if it relates to style, taste, cosmetic, or seasonal design factors. Examples of qualified research expenses are in-house company expenses (wages, supplies and computer use charges) or sixty-five percent of amounts paid or incurred for qualified research done by a person other than an employee. The percentage is increased to seventy-five percent if research is performed by a qualified research consortium.

Ineligible

Activities listed for which the credit is not allowed are any items which are not considered as qualified research, including, research conducted after the beginning of commercial production of the business component, research related to the adaptation of an existing business component to a particular customer's requirement or need, and research related to the reproduction of an existing business component. Also any surveys, studies, etc., are not eligible for the credit, as is research with respect to computer software developed by a company primarily for internal use by the company. However, any computer software developed by a company for use in an activity which constitutes qualified research or a production process which meets the requirements of qualified research expenditures is eligible for the credit. Also, any research performed outside of the United States, any research in social sciences, arts or humanities or any research funded through grants, contracts, or otherwise by another person or government are not eligible for the credit.

Other Information

A start-up company's fixed base percentage is 3% for each of the first five tax years it incurs qualified research expenses. A start-up company is a company that has both receipts and qualified research expenses for the first time in a tax year that begins after 1983.

The fixed base percentage for years six through ten is based on a portion of the percentage of qualified research expenses for specified preceding years. For subsequent years the fixed-rate percentage is the whole percentage that expenses bear to receipts for any five years selected by a company from the fifth through tenth tax years. ▶

Continued on page 8

Past Meeting Summary

You Built It — Will They Buy It? Advice for the Entrepreneur

By Jerrold M. Shapiro, Principal, Laser Surgery Solutions

Those attending the WPI Venture Forum's October meeting were treated to an in-depth marketing and sales presentation by Jim Blaschke, CEO of Archer Consulting Inc., a Gloucester consulting firm. Floranne Reagan, Principal of EXXEL Inc., moderated the meeting. Jim began asking how many of us think of the movie, "Field of Dreams" when we see the way some entrepreneurs market their products. He introduced himself as "a recovering engineer" who has started several companies and wanted pass along experience-based advice on the prerequisites for successful sales and marketing.

The Success Triangle

Three key points for successfully establishing a business, illustrated as a triangle, are: 1) Focus (through discipline), 2) Reduce Risk (through positioning), and 3) Create Leverage (through relationship management). Jim directed his comments from an entrepreneurial perspective toward a new company or new product.

The pace of new businesses' formation is quickening exponentially. The time for 50 million users to adopt radio was 80 years; for television 40; for cell phones, 15; and only 5 years for the Internet. The marketing result of this onslaught of new products is an overload of messages reaching the consumer. For example, 1000 new products are introduced in US supermarkets each month; 3000 daily marketing messages are heard by each of us; and an average Internet user has access to 1.5 million commercial sites. How are you going to attract attention to your company and its products?

Achieve Sharp Focus

Jim introduced two key focus strategies borrowed from Apple Computer: think Different, and be Relevant. Companies need to focus on what the product does for its purchaser rather than what it is.

First, Jim advised us to think differently. Many companies try to rely on their customers for new ideas. "The problem with focus groups is that they don't." Customers can only see so far beyond what they are doing today, and what they want for tomorrow. Jim described the currently served quadrant of the graph "Application (new vs. current) — Customer Type (served vs. unserved)" where there is little innovation as "Better Sameness." A company marketing in this quadrant is at an inherent disadvantage due to well-established competition in a limited sandbox. Jim suggests that we adopt a parallel to Sun Tzu's advice, "The best strategy in war is to win

Jim Biaschke of Archer Consulting, explains the critical link between sales and customers.

without a fight," i.e., go where others aren't.

Second, a new product should solve customers' tangible business problems. This facilitates the customer's cost-benefit evaluation of your product. Once successful products mature in a competitive market, then services become the differentiating factor.

The biggest problem for new companies is "crossing the chasm" and becoming a going concern, i.e., an established, more predictable business. To cross the chasm from selling in the early market of technology enthusiasts and visionaries to selling in the mainstream market of pragmatists and conservatives, you need sharpen your focus on product and market definition. What does the product do properly? Which one to three industries have the greatest need for your product? A start-up company has limited resources, and so must use them wisely to do such a great job for the customer that the early adopters will serve as the references you need to persuade the pragmatists in the mainstream market. Technology enthusiasts and visionaries will understand your product without much marketing effort; you need their help to persuade their more conservative friends to buy your product.

Reduce Risk

Jim introduced this multi-path topic with three sayings. An old New England proverb is, "If you don't know where you're going….any road will get you there." Casey Stengel said, "If you don't know where you're going….you'll end up someplace else." And Yogi Berra's version was, "If you don't know where you're going….you're lost." The more paths, the greater the chance you'll get lost! In a new venture with three new elements — technology, product and market — there are three two-way paths between the elements, for a total of six interface points. If only one new element, say a new management team, is added to the venture, the number of interface points doubles to twelve. As additional new elements, such as strategies or processes, are added, the potential for chaos grows quickly.

To reduce the compounded risk, reduce the unknowns. Bring in experienced management. Apply established technology in new ways. Attack markets with similarities to current ones. Avoid focus groups — they don't. Take new ideas to your customers and ask what they think.

Create Leverage

The third part of the success triangle, Create Leverage, can be accomplished through relationship management. In simple terms, this means getting others to help you make the sale. The likelihood of selling increases with the customer's experience with you: 15% for a new customer, 50% for an existing customer, 70% for a complaining customer if you resolve the problem, and 95% for a complaining customer if you resolve the problem on the spot. The ladder of customer loyalty ranges from prospect, to customer (who's bought once), to client (who's bought 2-3 times but could be pulled away by a competitor), to advocate (who's received great service and will tell others about you) to your ultimate objective — a partner to whom you make it clear that you'll live or die by whether they succeed. If you don't build customer loyalty, sales are simply a numbers game. A small company that cannot afford the resources to ▶

Continues

make the many sales calls it takes for success, and must find another way to increase the probability of a sale: relationships.

Relationships with your customers can be regarded as resources or assets. No organization, even a large one, can lock up all the necessary resources under one roof. To cross the chasm, you need allies for access, and access must be earned. Relationships aren't resources, they're assets — the focus must be on customers, not competitors. This mindset affects the behavior of the whole firm.

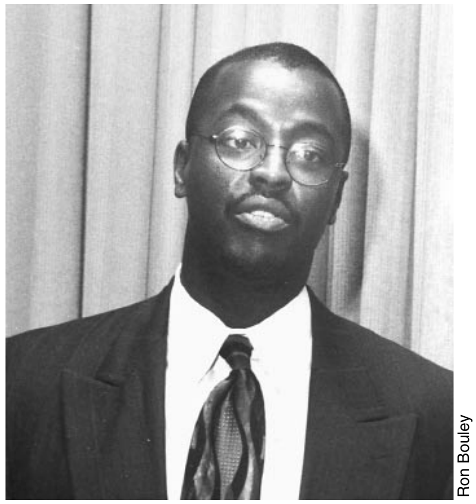
The five relationship management skills are hunting, coaching, and leading, farming, and positioning. Depth is the quality and status of your personal relationship with the contact. Relevance is the strategic fit between the contact's organization and your own. Position is the person's rank or power within his or her own organization. Influence is the contact's influence within your defined marketplace. Jim recapped his major points, and in response to audience questions, compared finding the customers who understand your product to playing golf – it's that one in fifty shots that keeps you coming back.

Case Presentation

Michael K. Collison, President
Isis Associates, Inc.
Shrewsbury, MA

Michael Collison founded this company in 1994 in Massachusetts to develop custom compilers for digital signal processing (DSP) chips. The company has developed compilers for AT&T and the DSP Group. The business concept is to decrease time to market, increase productivity and save money.

The Product—A working definition of digital signal processing is taking time-varying real world signals into a microprocessor, doing some processing and putting the result back in the real world. DSP chips are in many of the products that we use every day, such as portable and cellular telephones, satellite communications devices, and cars. In order to keep costs low, the DSP chips have a limited amount of memory for the software that runs them. This often causes the chip programmers to resort to customized assembly language instructions to fit the required functionality into the limited memory. Michael encouraged us to think, "Assembly language = bad." Isis developed a compiler that converts DSP programs written in a higher level language, such as C, C++ or Java, to assembly language. Since it is much easier and faster to use a higher level language, a compiler speeds DSP software development.



Mike Collison of Isis Associates, discusses his sales and marketing efforts.

The Opportunity—The worldwide market for programmable DSP chips was $3.2 billion in 1997, and is growing at a 33 percent compounded annual growth rate (CAGR.) There are currently four roadblocks to DSP software development: rising life-cycle costs, space/time constraints, minimal re-use of developed software, and increasing complexity.

Strategy—Isis provides DSP compilers that reduce time-to-market by eliminating assembly language development and increase programmer productivity by a) providing a high level language to more than double the number of lines of code written per day, b) facilitating reuse of code and c) cutting in half the time to find and fix software bugs.

Competition—Isis' key competitors are DSP vendors and compiler manufacturers. The company analysis of the competition is that compilers enable sales of DSP chips, but are not a major revenue source for chip vendors, and that DSP is not the primary focus of third party compiler companies. In addition to reducing time-to-market, Isis expects its competitive advantage in the high-end multiprocessor to be its early market entry with a compiler, debugger and simulator and the consequent significant reduction in the complexity of multiprocessor DSP applications.

Isis Associates anticipates total revenues to grow from $2M in 1999 to $54M with increased margins. The company expects to break even in 24 months and attain positive cash flow in 27 months. The company desires $5M in equity financing. The likely exit scenarios are an IPO in year 5 or purchase by a DSP chip vendor.

Panel Review

Mike Masterson, the President and CEO of KMI/ParExel who also teaches software validation, remarked that it was a great presentation with the walk-away message, "Assembly language=bad." Isis' business plan was concise, but could be expanded slightly to explain why someone didn't think of this before. Who are the customers, and which of them will buy the product? Mr. Masterson suggested that Isis form an advisory group of programmers in industry that can lobby manufacturers. The high gross margin raises flags about how much reinvestment the company will do, and whether the company can sustain an organization to support the product. He also recommended staging the offering for 25% of the needed capital at first to get the product out, and 75% to market the product once its out there.

Kathleen Birmingham, an Associate at Shawmut Capital Management, looked at the business plan from the investor's viewpoint, and asked three questions: What problem do you address? How big is the market and can you reach customers profitably? Why is your management team the one that can do the job? Serious investors look for companies with annual sales in excess of $100M. If Isis set up its business with great service it could potentially displace chip manufacturers. The company did a good job of presenting its financials monthly for the first two years. Kathleen would like to see more details and the underlying assumptions, for example a head count.

Jim Blaschke, our speaker, also liked the presentation. He made five suggestions. 1) Supply a crisper definition of the customer with examples of the return on investment. Build a case for why the customer will win and why the value proposition will carry the day. 2) There are a number of risks: there's a volume expectation for the number of software drivers and how long such work will take. 3) Specify the number of people involved in assembly language programming. 4) If there is only one competitor, either it's very early in the market, or no one else has survived; the business plan should explain this. 5) Look for an advisory board of heavy hitters that can bring credibility to the company.

Mr. Collison then answered many questions from the audience; in fact, many stayed to speak with Mike and the panelists well into the evening.

Jerrold M. Shapiro, Ph.D., Principal and Founder of Laser Surgery Solutions, invents new surgical products to order for clients in the medical device industry. (508) 872-8725 or by e-mail at J4shapiro@AOL.com.
VF

More Than Product Cost Goes Into Pricing Decisions

by Stephen Davis, Davis Management Group

Most start-ups in the desktop-computer industry struggle considerably when pricing their products. Often an entrepreneur tends to undervalue his goods and assumes that a product is uniquely price sensitive. This article provides some guidelines to assist you when going through the pricing process.

Endpoints

When establishing prices, there are certain constraints that serve as endpoints. Factors such as demand and competition set a product's cost ceiling. On the other hand, to set a price floor, you can use a technique called cost-plus. Here you sum all of the product's per unit costs including materials, testing, and manufacturing labor. To the total manufacturing cost apply a multiplier that covers design and prototype costs, continuing engineering, sales commissions, marketing and administration costs. To determine a preliminary price, add a normal profit and account for distribution discounts. A typical value for the multiplier ranges from 70% to 200% depending on the product and overhead associated with your firm.

Between the price floor and ceiling just determined there is considerable leeway where you can tune a product's price for market and competitive conditions. Here's where you must account for factors such as a company's objective, customer expectations and the competition.

Direct Effect

Overall company objectives have a direct effect on pricing. The most common objectives are stated as dollar sales, profit, market share or image. Obviously, if your goal is to penetrate the marketplace with a large number of units, set the price on the low side. But if you wish to be perceived as offering a superior product, set the product's price high because a price below that of the competition might create an image of inferiority. Such business objectives can even conflict. For instance, increased unit sales don't necessarily result in increased profits. Strategically you might decide to sacrifice short-term profits for an increase in market share or to stimulate a product introduction.

Spur Sales

Next note that the same price almost never holds for all customers. Firms establish discounts and other concessions as an inducement to spur sales. In setting up a discount program, you can segregate customers into classes according to what it costs you to service them. For instance, system integrators usually require less training and support than end users. Practices in this area are changing, though. Rather than give discounts for users who need little support, some vendors of PC-based software have started to charge extra for customer support, and in the minicomputer market it's customary to pay an annual technical support charge of at least 10% of a package's initial price.

Discount Factors

Discounts can be based on a number of factors. Cash discounts are usually given to buyers who pay within a specified time period. Quantity discounts are based on the number of units purchased. This policy encourages larger orders that, in turn, reduce per unit costs. You can base such discounts on a single shipment or on cumulative shipments over a specified period. Cumulative discounts, however, have one major drawback: customers might place large orders over a period of time to receive a larger discount but not accept their full commitment of product. Here a good approach is to write a bill-back clause into the original contract so purchasers pay the difference if they accept lower volumes; also useful are quarterly quotas and reviews that spot insufficient orders early.

Trade discounts are reductions given to certain buyers such as dealers, distributors and retailers. These discounts extend distribution of your products and are especially useful for firms that don't generally deal with end users. In contrast, dealers and distributors are in constant touch with end users who buy in small quantities, but they expect you to help defray their overhead with discounts. Dealer and distributor discounts typically run as follows:

Product Type	Dealer	Distributor
• Hardware	35-40%	40-50%
• Software	40-50%	50-60%
• Accessories	40-50%	50-60%

Promotional discounts are given to buyers during sales promotions such as trade shows and seminars to assist in local advertising. Organizing local advertising across the country can be difficult for a small firm, so many vendors set up an accrual fund of perhaps 5% of the product's sales price. When local dealers advertise your products in the local media or set up a local program such as a seminar, they can submit receipts and draw from that fund.

Psychological Price Points

There is one final element to consider before you start printing up price lists—psychological price points. These price points are levels at which customer's perceptions significantly change in regards to a product's worth and have an enormous impact on buying patterns. For instance, you might sell considerably more product at $299 than $329, but not significantly more at $275 than $295.

Where are these price points? There are significantly more psychological price points at lower price levels. Here are some price points to be aware of: $4999, $2499, $499, $399, $299, $199, $99, $49.99, $24.99, $19.99, $14.99, $9.99 and $4.99.

No Guarantee

Even after you've set your price and discount policies there is no guarantee that they are correct. Price strategies are constantly on trial and must be monitored continually. When reviewing prices, look for ambiguous problem indicators. For instance, salesmen tend to blame lost sales on prices even if there's another reason. However, declining market share and reduced profits are sure signs that a pricing strategy needs modification.

Selling A Solution

In most situations where I've heard firms blame lost sales on price competition, the problem turns out to be a poor job of identifying and selling a solution for customers needs. In this regard, here's an interesting sidenote. Visicalc, the ground breaking PC spreadsheet product, was originally priced too low at $99.95. When Visicalc realized that people were using the software to justify spending several thousand dollars for an Apple II, they started to raise the product's price. And even though Visicalc's price increased to $250.00, unit sales kept increasing.

When it comes time for price changes, pay close attention to how you announce them. Suppliers generally announce them through news items in publications, distribution of new price lists and verbally through the salesforce. Companies typically announce price increases to their customers 45 to 60 days in advance to allow them to adjust their purchasing plans. This announcement can even boost sales as cus- ▶

Continues

tomers try to lock in the old price. On the other hand, it's not wise to announce price cuts in advance because customers will likely hold off purchase until the new prices take effect.

Don't Negotiate On Price Alone

Contrary to popular belief, price isn't the only issue in sales negotiations. I'm constantly amazed at the number of salesmen and buyers who believe that a product's price always covers it's cost. Sooner or later a major customer forces every company into a price squeeze, and I've seen competition spiral prices downward for entire product segments to where most companies either breakeven or lose money. Unfortunately, when faced with this situation, most companies panic and reduce prices without considering the whole picture. A sale doesn't just mean signing a purchase order and delivering the product. Successful salesmen act as consultants, using their knowledge of the industry and customer needs to offer targeted solutions to specific requirements. Before reducing your product's price, make sure that you're doing a proper selling job.

Be sure to emphasize extra options and services that can help you justify a product's price. Among them are ongoing advice, consistent quality and product flow, guaranteed up-time, post-sales service and technical support, changes in specifications to match a particular customer's needs and flexible payment terms. Realize that you'll always be under pressure to cut prices. Don't panic, you may only have to change your sales presentation to show that your product actually costs less when factors other than price are factored in.

Stephen N. Davis is Principal and Founder of the Davis Marketing Group, located in Franklin, Massachusetts. His firm specializes in marketing, sales and product introduction services for high technology companies. Steve can be reached at 508-528-7571. **VF**

Directors/Advisors/Mentors – Your Secret Weapon

Continued from page 1

Case Presentation

Dr. Mitchell Sanders, President
Expressive Constructs, Inc.

The WPI Venture Forum is pleased to feature a graduate of WPI, Dr. Mitchell Sanders, a protein biochemist and the President and CEO of Expressive Constructs, Inc.(ECI). ECI is a startup biotechnology service and product company. ECI's services include DNA vector construction, protein expression, equipment beta testing, and consulting. ECI projects that its first product, a protein standard, will be on the market by January 1999. Additional biochemical and molecular reagents are in the product pipeline. Incorporated in 1998 in Massachusetts, ECI has already established a strategic alliance with the WPI Center for Applied Molecular Genetics and has consulted for several large life science research product companies. With the downsizing of the research and development staff that has occurred in large corporations, many corporations are looking to small, faster moving outside entrepreneurial companies for new products and for specialized help on specific in-house projects. A plurality of companies, even large corporations such as Dow Chemical Co. and Proctor & Gamble, have established special staff positions to interface with outside inventors and technical consultants. Therefore, a need appears to exist in the marketplace for a company such as ECI.

The Team

Dr. Mitchell Sanders received his Ph.D. through the WPI Consortium with post-doctoral work at the Whitehead Institute. He has extensive experience in protein biochemistry and purification as well as experience in cell and molecular biology. He has developed and taught high throughput screening assays. As an author of eleven published scientific publications in prestigious academic journals, he also has practical experience as a consultant to companies in the biotech industry. The other half of the team is Elisabeth M. Sanders, VP and Director of Sales and Marketing, who attended Lesley and Assumption Colleges. She has 15 years of experience in direct sales and marketing. She has developed the market search basis for ECI and manages the financial aspects of the company.

Presentation

Dr. Sanders will present ECI's business plan to the Forum. While creative financing has proven successful thus far, ECI is seeking a long-term financial strategy that will facilitate rapid growth. Further, ECI is looking ahead towards building a cohesive staff and would like advice on human resource issues. Thirdly, ECI would like advice on how to maintain its competitive edge. Our panel of experts will help address these issues with a review of their business plan. Please join us in December to hear about this rapidly growing company that anticipates outdoing most other biotechnology and life science research companies' records in getting products to market. **VF**

An Assist from Uncle Sam – R & D Credits for Business

Continued from page 3

Chart I

The following is an example of how the research credit is calculated for a taxpayer:

ABC CORPORATION, RESEARCH CREDITS, YEAR ENDING 3/31/98

Gross Receipts	$9,416,000
Qualified Expenditures (see definition above)	803,000
Fixed Based Percentage (%) (see Chart II)	7.05%
Average gross receipts (A.G.R.) (see Chart III) (previous 4 yrs. gross receipts)	8,120,000
Base amount (not less than 50% of qualified expenditures) (Fixed base % multiplied by A.G.R.)	572,000
Increase in expenditures (qualified expenses less base amount)	231,000
Limitation 50% of qualified expenditures	402,000
Eligible for credit (lesser of increase in expenditures or 50% limitation)	231,000
Research credit - (20%)	46,000
Reduced credit (Sec. 280C) (In lieu of losing deduction for credit amount)	30,000
MA State credit (10% multiplied by expenses eligible for credit)	23,000

Chart II

ABC CORPORATION, FIXED BASE PERCENTAGE CALCULATION, YEAR ENDING 3/31/98

	3/31/85	3/31/86	3/31/87	3/31/88	3/31/89	TOTAL
Gross receipts	$5,333,000	$5,200,000	$6,049,000	$5,013,000	$8,597,000	$30,192,000
Qualified expenditures	368,000	368,000	400,000	453,000	539,000	2,128,000

Fixed base percentage (qualified expenditures/gross receipts) 7.05%

NOTE:

The fixed base percentage, (the aggregate research expenses compared to aggregate gross receipts for the tax years 1984 through 1988) may not exceed 16%.

Chart III

ABC CORPORATION, AVERAGE GROSS RECEIPTS CALCULATION, YEAR ENDING 3/31/98

Year	Gross Receipts	Average Gross Receipts
3/31/94	$5,013,000	
3/31/95	8,597,000	
3/31/96	9,471,000	
3/31/97	9,399,000	8,120,000

Alternative Incremental Computation

A company may not be able to take the research credit if it has calculated a large base amount. This may be due to the company's spending a significant portion on research in the base period. The statute gives these companies incentives to maintain or increase research by electing the alternative incremental computation (which is scheduled to expire 6/30/99). The election must be made in the first tax year that begins after 6/30/96 and applies to all future years unless the election is revoked with the consent of the IRS. The credit is the sum of an increasing percentage of the amount of qualified expenses in excess of a percentage of the base amount, divided into three tiers. If the election is made for the first tax year beginning 7/1/96 and before 7/1/97, then the election shall be available for the entire 36-month period beginning with that tax year. However this 36-month period is shortened by the number of months after June 1996 for which the regular 20% credit was claimed.

Conclusion

As stated in the first paragraph of this article, there are a number of benefits provided by the research and development credit for businesses. As a word of caution, however, businesses contemplating using this credit should maintain thorough documentation to support their R & D credit. The documentation should be of a narrative as well as numerical nature to support that all costs taken under this credit are of a qualified nature, in case of a challenge by a Federal or State taxing authority.

Eric J. Newman is a manager with the CPA firm of Mottle McGrath Braney & Flynn, P.C. located in Worcester, Massachusetts. Eric can be reached at 508-753-6500 or at EMAIL: mmbfpc@alo.com. **VF**

Love 'Em or Lose 'Em

by Richard Dacri, President, Dacri Associates

The economy remains robust and unemployment is at an all time low. Finding people seems nearly impossible and your people are being lured away to greener pastures. Do the only solutions appear to be: a) to gear up your recruitment efforts and battle for those few available candidates and b) to lower your standards and expectations? Wrong!

Best Prospects Are Under Your Nose

While recruitment is part of the solution, retention may be the key. High turnover is not a fact of life. Case in point: a manufacturing firm recently needed assistance with their recruitment - they just couldn't get enough people to meet their expanding demands. After carefully evaluating their recruitment needs, it became clear that their real problem was turnover - they were losing people faster than they could hire them. They realized that they had to focus on retention, otherwise their recruitment efforts would be lost.

Why Are They Leaving?

To address this retention problem, they developed a multi-component program focusing on recruitment, orientation, compensation and turnover analysis. To begin, they had to analyze their turnover: why were people leaving, when were they leaving, what were the causes and what parts of the organization were affected. Until they knew these answers, they could not develop an effective retention strategy. They also began utilizing exit interviews to gain greater first hand information on the causes of their turnover.

You Hire Your Turnover

Then they looked at the recruitment process because an effective retention program requires that you hire the right people. Short-cutting this process, no matter how difficult it is in this tough economy, is not the solution. They began by training the managers to conduct thorough, behavioral orientated employment interviews. Then they developed profiles of the "ideal" candidates and built the recruitment campaign around them. Candidates were interviewed by at least two managers and thorough reference checks were conducted. With some positions, employees were included in the interview process and with other positions, skill testing and/or psychological testing were required.

What happens once a new employee comes on board is equally important. Ask any employee about their first day at work and they can tell you everything that occurred on that day. The first few minutes, hours and days are critical in retaining new employees. Effective new employee orientations pay their weight in gold, so develop a comprehensive program. Make sure that the new employee understands the organization's culture, philosophies and expectations.

Money Talks

They analyzed the company's wages and benefits to be sure that they were competitive. Since money was limited, they had to be sure that it was used effectively. Over a twelve month period, they introduced an incentive pay system tied to predetermined success factors. They also developed retention bonuses for key positions. Finally, they introduced a series of nonfinancial incentives which were designed to make work both easier and fun. Simple things like laundry pick-up and oil/filter changes at work were well received.

Provide Flexibility

Through a series of focus group meetings, they learned that the employees wanted greater flexibility in their schedules. They then introduced a program to allow employees who were not tied to production schedules flexibility in their hours so they could schedule doctor appointments, attend their children's school functions, etc. For those employees where production requirements limited flexibility, they developed a paid time-off program.

It's Working!

Since these initiatives were undertaken 18 months ago, they have seen turnover rates drop from 40% to 22%, resulting in a significant reduction in costs, staffing pressures and recruitment needs. By focusing on retention of existing employees, they found that this was the best tool to ease the recruitment woes.

Calculating Turnover: The formula for calculating turnover=# of employee separations during the month divided by the total number of employees at mid-month.

Reprinted with permission from the Dacri Report, Your Human Resource Update, September 1998, Volume 3.06. Dacri & Associates, located in Westboro, Massachusetts, specializes in Human Resource Management services. Richard can be reached at 800-892-9828 or e-mail at dacriassoc@aol.com. **VF**

BUSINESS BASICS
Venture Forum HELP Desk

The Venture Forum Help Desk offers entrepreneurs an opportunity to request advice or offer suggestions on how to deal with difficult business problems. We encourage readers to tell us the problems they face. We'll publish them with the hope that other readers will be able to offer advice on how to deal with them. Please e-mail new requests or suggested solutions to Norman Brust at HYPERLINK mail to: ntbrust@ ultranet.com.

READER ADVICE

• Employee Attitude

A nonprofit organization is having problems with a paid secretary who was also a long-term volunteer member of the organization. Despite being paid, she refuses to carry out specific tasks which then must be done by unpaid volunteers.

Does the secretary understand that her behavior is causing problems? The Executive Director should have an unemotional discussion with her to describe the situation. Clearly outline the goals of the organization and the evolution from what the organization used to be to what it is today. Involve the secretary in defining present needs and how they can best be met. Finally, if this doesn't work, make it clear, in writing, that she will need to be replaced.

Floranne Reagan
EXXEL. Inc.
Natick MA

• Exporting

A jewelry manufacturer asked advice on how to explore overseas markets.

The Massachusetts Export Center does good research on potential markets overseas. For Southeastern Massachusetts contact Toby Stapleton in Fall River # 508 673-9783 or HYPERLINK mail to: tstapleton@umassd.ed. Or, contact Paula Murphy, Mass Export's Director in Boston at 617 478-4133.

Charles J. McChesney
The Alliance for the Commonwealth
Boston MA

Norman Brust, President of NTB Associates, specializes in helping industrial and technology based businesses increase profitable sales. **VF**

PowerPoint and You

by Rockie Blunt, President, Blunt Consulting Group

With apologies to David Letterman, here are ten tips for delivering effective PowerPoint presentations:

10. Deliver the presentation on the same computer it was created on.

9. Use large letters: a minimum of 24-point type for text and 36-point type for titles.

8. Limit the information on each slide. Five or six bullets is quite enough.

7. Make sure that all of your slides have the same color, font style and format.

6. Don't use bright or blaring colors for backgrounds. They can be distracting and exhausting.

5. Use light colors for text on a dark background.

4. Don't use more than two font styles. Less is definitely more.

3. Don't use PowerPoint for long presentations. It puts the audience in a very passive mode.

2. Rehearse with the equipment, especially if it is new to you, and familiarize yourself with the room beforehand.

1. Always have a backup plan available, in case of computer malfunction.

Rockie Blunt is President of Blunt Consulting Group, a Worcester, Massachusetts based firm that offers corporate communications training and consulting services. Rockie can be reached at e-mail at rockie@bluntgroup.com. **VF**

CALENDAR OF EVENTS

January 19, 1999 - Up-Front "Exit" Strategies - The Journey's Summit

February 16, 1999 - Growing Pains - Building Your Company

March 16, 1999 - Creating A Corporate Image

April 20, 1999 - Finding The Funds

May 18, 1999 - Getting Real Customers To Pay Real Money For Your Product

June 15, 1999 - Business Plan Contest

WPI Venture Forum

1998/99 Membership Application and Renewal

The membership year runs from July 1, 1998 through June 30, 1999. Please send the form and a check for $20. to: WPI Venture Forum, WPI, 100 Institute Road, Worcester, MA 01609

The membership benefits include: half price attendance fees to WPI Venture Forum monthly meetings, free subscription to the WPI Venture Forum Newsletter and notification of WPI Venture Forum events.

Name & Title ______________________________

Company ______________________________

Address ______________________________

City ______________________________

State ______________ Zip ______________

Email ______________ Fax ______________ Phone ______________

Cybersquatters Operate "In Commerce"

by Joseph Iandiorio, Patent Attorney

Sumpton is a cybersquatter who has registered over 12,000 domain names, not for his own use, but rather to prevent others from using those names without paying Sumpton a price.

Avery Dennison objected to two of the names that Sumpton registered as domain names, Avery.net and Dennison.net, and brought suit under the Federal Trademark Dilution Act to enjoin Sumpton from using those domain names. Under that act, the owner of a famous mark is entitled to an injunction against a person's commercial use of a mark or trade name if it causes dilution of the distinctive quality of the mark.

"Use In Commerce"

The term "use in commerce" is fundamental to the decision in this case and is defined as the bona fide use of the mark in the ordinary course of trade. Sumpton doesn't deny that they are using the words "Avery" and "Dennison" in commerce by offering them for license as domain names, but they argue instead that they are not using these words as trademarks and that therefore their use is not within the coverage of the act because to be used in the ordinary course of trade, a trademark must be used specifically to connote its secondary meaning as a product source identification.

Court Disagrees

The court disagreed and held that for the purposes of this act, a famous mark is "used in commerce" when it is registered as a domain name by a registrant who is not otherwise identified by or associated with any of the commonly accepted meanings of the domain name and it is not used by the registrant as its own domain name but rather is held by the registrant for sale or license to others.

In an interesting twist, the court announced that it could not conclude that Sumpton's business was a sham as a matter of law, and therefore it could not conclude that Sumpton should be required to transfer the domain names to Avery Dennison without any compensation, as has been done in other cases.

Absent undisputed evidence that Sumpton's true business purpose was to pre-empt domain names for the purpose of selling to the highest bidder, equity requires that Sumpton be paid if Sumpton is to be required to relinquish domain name registrations for a legitimate business purpose. The court decided that the appropriate sum of $300 for each of the names "avery.net" and "dennison.net" was fair. The sum of $300 apiece represents a return of 100% per year on Sumpton's original investment. If Sumpton were to get similar compensation for all of his names, he would realize a total of approximately $3.6 million on an investment of approximately $1.2 million. Avery Dennison Corp. v. Sumpton, 46 USPQ2d 1852 (CD Cal.)

Used with permission from Decisions & Developments, September, 1998, Volume 19, number 5, a publication of Joseph Iandiorio, Patent Attorney. Joe is a partner in the intellectual property law firm of Iandiorio & Teska in Waltham, Massachusetts. Joe can be reached at 781-890-5678. **VF**