

WPI Venture Forum

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WPI VENTURE FORUM CALENDAR OF EVENTS

February 16, 1999 - Growing Pains — Building
Your Company

March 16, 1999 - Creating A Corporate Image
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:

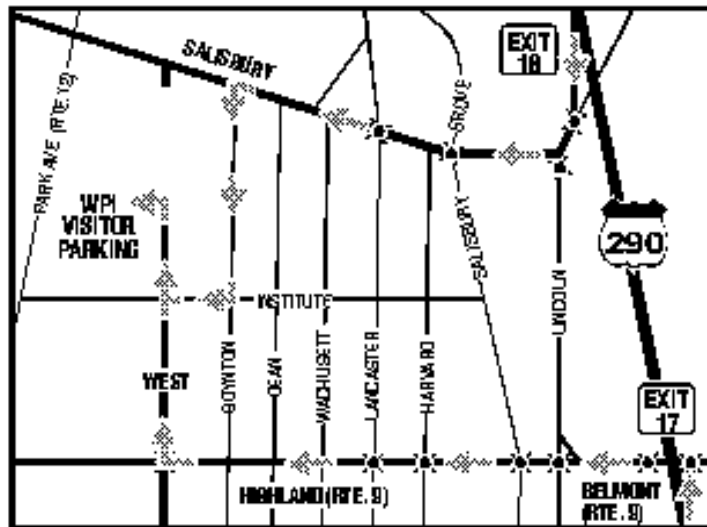
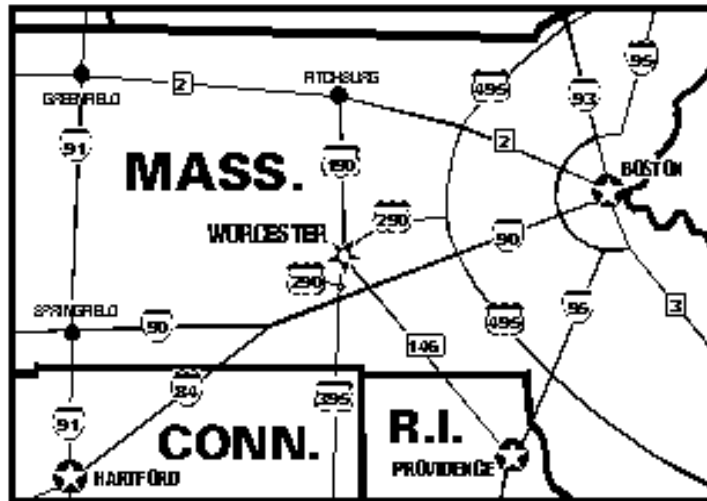
Take Mass. Turnpike (I-90) to Exit 11A (I-495).
Proceed north to I-290, then west into Worcester. Take
Exit 18, turn right at end of ramp, then an immediate
right before next traffic light. At next light, proceed
straight through, bearing to the right on Salisbury St.
At the WPI sign, turn left onto 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).
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Lincoln Sq., straight onto Highland St., then right at
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Venture

VENTURE FORUM
NEWS

Growing Pains – Building Your Company

Tuesday, February 16, 1999

WPI Campus, Salisbury Labs

Registration: 6:00 pm

Meeting Begins: 6:30 pm

Admission Fee: \$5.00 members

\$10.00 non members

Any successful company goes through growing pains - it achieves its success by dealing effectively with the matters that caused the pains. Steven Rubin, the founder, president, and chief executive officer of Intellution, will discuss how he dealt with these issues during the growth of Intellution.

Intellution is a leading developer of packaged manufacturing automation software that collects, manages and distributes information from the plan floor throughout the enterprise. Its products are used around the world in a variety of industries ranging from food & beverage to semiconductor manufacturing to water and waste. Intellution, which has 300 employees, in 1995 became a division of Emerson Electric, a \$12 billion diversified manufacturer based in St. Louis.

Mr. Rubin has subtitled the theme of Growing Pains as the “defining/life cycle events in start-

ing, growing and managing a company”. He will illustrate the key points of his presentation with illustrations from the development of Intellution. Among the defining events which Mr. Rubin will discuss during his presentation are legal organization, naming, the Board of Directors, hiring of employees, communication of the business plan to employees, development of appropriate compensation plans, documentation of business practices, and funding (bank vs. venture capital).

Mr. Rubin will also cover the topic of *When Bad Things Happen* — how to survive firing a close friend, being sued by a competitor, having an employee breach a non-compete agreement and work for a competitor, or having your product code stolen by a former distributor-turned-competitor.

Finally, Mr. Rubin will discuss the issue of liquidity — how and when does the entrepreneur convert “sweat equity” into “spendable equity”, the pros and cons of ESOPs, going public or acquisition, and how these affect customers, suppliers, sales channel and employees.

raw materials for new rubber compounds.

Mr. Erickson, who is presently its CEO, founded EMI in 1996. EMI has begun business on a limited scale in a pilot plant, and it has manufactured and sold 85,000 pounds of its product and it has recently received a \$200,000 purchase order for 1999. EMI has two patents pending, is working with UMASS-Lowell on a grant-funded joint research project to develop its product further.

EMI feels that it has now developed its proprietary manufacturing process to the point where it can move into full-scale commercial production. To achieve this, EMI intends to build a state of the art, automated and computerized plant capable of annual production of 40,000,000 pounds of product.

The new plant will cost \$14,500,000 to build and equip. EMI has a commitment for \$12,000,000 of tax-exempt bonds and it is seeking new equity capital to finance capacity expansion of its pilot plant, to cover short-term operating losses and to fund the costs associated with the bond financing and to supplement the bond financing to build the new plant. **VF**

Case Presentation

Scott C. Erickson, President

Erickson Materials, Inc.

Woburn, Massachusetts

Erickson Materials, Inc. (“EMI”) is involved in the manufacture of recycled rubber powders, which are added as a new material to rubber compounds. EMI’s business plan is careful to point out that while EMI’s manufacturing processes help address an important environmental problem - scrap rubber products, including tires - EMI views itself as a manufacturer of

WPI VENTURE FORUM

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

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Letter From the Chair

WPI Happenings

By Brian Dingman

On December 11, 1998, WPI hosted the "1998 Central Massachusetts Economic Summit". The office of U.S. Senator Edward M. Kennedy coordinated the summit. I understand that the meeting drew over 350 attendees, including government, higher education and business leaders. I was able to attend the meeting, which was interesting, but unfortunately too short. The breakout sessions were geared well toward the region's key industries, but, at only about 45 minutes, were too short to offer more than a good beginning of discussion around these issues.

As stated by the senator, the goal of the program was to "continue our efforts to promote job creation and economic growth in the state". Senator Kennedy told attendees that the policy makers in attendance, including himself, U.S. Representative James McGovern, and EPA Administrator Carol Browner, among others, were there to assist in developing new economic initiatives designed to strengthen the Central Massachusetts economy.

WPI President Edward A. Parrish praised the initiative, saying, "Today as in the past, WPI remains committed to promoting the strength and vitality of the region. Business partnership is an important part of WPI's history."

I wholeheartedly agree with Dr. Parrish. The WPI Venture Forum will continue to support technology business growth in the region through our educational and networking programs and opportunities, and looks forward to continued involvement with Central Massachusetts economic initiatives such as this.

If you were not able to attend, I would suggest contacting Senator Kennedy's aid, Mr. Kevin Richards, at (202) 224-2618.

WPI's Continued Support of Technology Academic Programs

On January 4, WPI opened a new campus in Southborough. This campus has replaced a smaller campus in Westborough. WPI's new MetroWest Campus, located at 225 Turnpike Road (Route 9 west), will offer 15,000 square feet of state-of-the-art computer labs and classrooms. "WPI is committed to providing graduate education, state-of-the-art information technol-

ogy training, and other professional development programs for the growing number of professionals who want to fill

the region's shortage of technically trained workers," states WPI President Edward Alton Parrish. "Through the continued expansion and technical development of our branch campuses, we can accommodate more working professionals who seek to advance their careers in today's burgeoning economy."

WPI's information technology programs, including Client/Server Technology and UNIX System/C/C++, will be available on a full- or part-time basis in Southborough. In addition, the Southborough Campus will host many of WPI's professional development seminars and corporate training programs. Evening graduate programs in computer science and in electrical and computer engineering will also be available at the new campus. You can peruse all of these offerings on WPI's web site, at WPI.EDU.

The WPI MetroWest Campus will be open 70 hours a week for classes, and the student lab will be open seven days a week. The teaching staff at the MetroWest Campus includes members of WPI's full-time faculty as well as industry practitioners with hands-on experience in information technology. Well over 70,000 working professionals have participated in WPI's continuing education and evening graduate programs during the past 20 years. In just the past four years, nearly 2,000 men and women have graduated from WPI's information technology programs, with a job placement rate of more than 95 percent.

I'd be interested in your feedback on these two programs. See you at the next meeting.



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

Which Horse to Ride: Business Entity Selection for the Entrepreneur

By David L. Renauld, Attorney, Mirick O'Connell

So, you've come up with the greatest idea since wide-mouth beer cans and you'd, GASP, actually like to make some money from this idea? I'm sure, like all entrepreneurs, the legal issues of choosing a form of legal entity to take you 'round the track to the winner's circle are foremost in your mind. Hopefully, in 2000 words or less, I can provide you with some general considerations to assist with your decision.

Factors in Selection

The choice of which entity to use depends on a wide variety of factors. Two important factors typically are the desire for limited liability and tax considerations. Other factors include future plans for the business, comfort level with a specific type of entity, both with the people who will be running the entity and with third parties who will deal with the entity, and cost of maintaining an entity.

One big factor in choosing an entity is whether you would like the liabilities associated with the business to be separate from your own personal liabilities. In other words, if the business doesn't work out, creditors of the business won't be able to go after your personal assets. Remember that the amount of your investment in the business entity will remain at risk. However, your liability will be limited to that amount — hence the term “limited liability” rather than no liability. As described below, some business entities will provide this limited liability while others will not. Two items of caution

even if you select an entity that will provide limited liability: (1) you can always contract around this limited liability (for example, if you personally guarantee the debts of the business entity) and (2) merely establishing a business entity does not guarantee your personal limited liability — you actually need to treat the business entity as separate and comply with the formalities relating to that business entity.

Another important consideration in choosing a business entity is tax treatment of that entity. Some types of entities qualify for “flow-through” federal income tax treatment. This qualification will save you money as the entity itself will not pay any federal income tax. Instead the tax attributes “flow through” to the equity owners of that entity who report those matters on their personal tax returns. Equity owners of entities that do not qualify for “flow-through” tax treatment end up having to pay two levels of tax. First, the entity itself must pay tax on its income. Then the equity owners have to pay tax when that income is passed on to them. This double level of taxation can greatly reduce the net amount received by the equity owners.

Future plans for the business, comfort level and cost should be considered as well. Some forms of entities are more conducive to a growing business and investment by third parties. Comfort level and familiarity are important if third party investment is desired and because the individuals involved need to be comfortable operating the entity on a daily basis. Most busi-

ness entities will involve up-front formation costs and annual costs, both to the appropriate state agency and to service providers (typically attorneys and accountants).

Types of Business Entities

Business organizations most commonly used are sole proprietorship, the general partnership, the corporation, the limited partnership (LP), and the limited liability company (LLC). There are other types of entities, such as limited liability partnerships, nominee trusts, and business trusts. However, those other entities are typically used for a limited type of activities so I won't bore you with details concerning these marginal entities.

The five listed entities generally break down into two different categories. Corporations, LPs, and LLCs are called “creatures of statute” because these entities can only exist because the legislature of a given state passed a corporate, LP or LLC statute authorizing the formation of these entities. As a consequence, formation of one of these entities requires a filing with some state agency to inform the state that a person has taken advantage of the opportunity presented by the legislature (and to give the state notice to start the tax machine!). Sole proprietorships and general partnerships can exist without any filing and also without any formal documentation.

Sole Proprietorship

If a single person simply starts a business without forming any entity, that person will be a sole proprietorship. For this form of business, in essence there is no distinction between the individual and the business. This simplifies matters because there is no legal need to maintain separate books and records, there is no confusion as to whose money is being used to pay whose expenses, and there are no separate tax returns that need to be filed. However, this form of business has its limitations. Because there is no distinction between the person and the business, the person does not have limited liability. Also, it is uncommon for investors (other than possibly friends and family) to invest in a sole proprietorship. ►

Continued on page 6

Directors, Advisors, Mentors — Your Secret Weapons

By Phyllis M. Hanlon

Robert Anderson, president of Omniken, Inc., brought his thirty-plus years of management and marketing experience with high-technology companies to the December 15th WPI Venture Forum meeting. His active involvement with two start-up companies, together with his participation on several boards of both well-established and emerging businesses, lends him the credibility to competently address the subject of the need and function of directors, advisors, and mentors for start-up companies.

He explained that every business requires the assistance and guiding hand that a board can lend. "Everyone needs a boss," Anderson said. An independent director is more likely to be objective, unlike employees, investors, consultants, suppliers, or customers. You as business owner will benefit from the broader perspective provided by experienced, supportive, and motivating directors. People from different backgrounds, industries different from yours, and various functions or jobs within those industries will offer new alternatives, challenge your assumptions, and contribute variant points of view. You must determine the kinds of skills you want and need in a director. Basically every director should have strong character, integrity, judgment, and vision. The specific skills that your directors will have depend entirely on your needs and the needs of the company. If your company lacks expertise in the area of general management, functional skills, industry knowledge, international presence, or any other corporate area, then those competencies are the ones you must address in your selection process.

Anderson emphasized that directors are more likely to have higher standards for your company and demand more accountability from you since they are emotionally removed. Their intense questions will promote a sense of urgency that "keeps the pressure on you" for the overall benefit of the company.

The relationship that you share with your board is equally important as who the members are. Mentors are likely candidates for directorship positions since they may originally have been your sounding board when your business

was in the idea stage. At this level you work toward establishing trust and rapport. A strong, supportive board will help with long-term focus, crisis survival resources, if necessary, and management succession. A board can become the driving force behind the financial and ethical structure of your company.

Once you have determined the need for a board of directors and realize who these members should be, you must convince eligible candidates that the job is worth taking. Your search should lead to men and women who enjoy entrepreneurship, believe in your vision personally, genuinely like you, your team, and the other board members, welcome an intellectual challenge, feel recognized and valued, and want to share in the financial success of your company. There should exist a "chemistry" between you and the board members that gives your company a better chance for survival.

Your search for qualified candidates should begin with current associates. Anderson advised networking with them to "get them excited about your business." Your association with other directors, attorneys, other CEOs, investors, and involvement in professional associations should provide you with a wide pool of prospects to choose from. Each meeting with a possible director will bring you closer to the final step in the process. Chemistry, complete understanding of what is required, excitement, and business acumen should all be considered when making a final choice.

Anderson suggested keeping the original board to three or four members, none of whom have a conflict of interest in the company. The CEO should be the only "insider" member of the board. As the company prospers and grows, so, too, should the board grow. The original CEO should remain on the board as one to two members are added. If the founder becomes the Chair or a new CEO is hired, it would become appropriate for two insiders to serve on the board. Continued increase in revenues demands that more board members be recruited. As your company reaches the \$10 million-plus range new board members with expertise in marketing, finance, technology, and having international



Robert Anderson explains the importance of selecting the right advisors and directors.

alliances would be valuable assets to the business.

Compensation for directors can be a combination of cash, equity, and/or director and officer insurance. The stipend should range anywhere from zero to \$4,000 for directorship in a startup or bootstrapped company. Emerging companies on more solid footing may offer \$4,000 to \$8,000, while established businesses might provide \$8,000 to \$15,000 in cash. In addition, equity beginning at one to two percent for startups, one-quarter to one percent for emerging companies, and less than one-half percent for established companies could be available. Director and Officer insurance is rarely provided in cases of startup companies. Growth dictates that the emerging company typically offers this insurance. Established businesses routinely provide Director and Officer insurance for their board members. Anderson quoted the above figures from a 1996 report.

The frequency of meetings should diminish as the company becomes well established, according to Anderson. He feels that extensive personal, phone, or email contact between the CEO and the directors is necessary in the beginning stages. Official board meetings for a startup company should be scheduled on a monthly basis, or more frequently if necessary. As the company approaches the \$1 million mark the meetings could take place on a monthly basis. By

the time the business is well established and boasting revenues of \$10 million or more, formal board meetings can be reduced to 6 to 8 per year.

The issue of committees within the board also changes with the growth of the company. Rarely do startup companies have any committees. Once again, as the business grows, so too do the committees. The needs of the emerging company prescribe the number and kind of committees that will be created. Once the business is on solid footing certain standard committees should be in existence.

Anderson explained that advisory boards differ from a board of directors in the function they perform. While a directing board governs, an advisory board provides specific advice in the scientific or technological area. In effect, the advisors are "the voice of the customer." The men and women who serve on this board are the public relations department of your company and lend it credibility. These board members have connections to others in the business community and the community at large that will benefit your company in some way. You should find these members easier to recruit as there are more likely candidates. Their commitment to the company involves less meeting time and less compensation than the board of directors.

In the question and answer segment of the program, Anderson emphasized the importance of documenting all agreements with prospective board members regarding term limits, requirements for service, compensation, and Directors and Officers insurance in order to prevent potential problems. He strongly suggested a business plan that details every aspect of the business including those affecting board members. "Be prepared," he cautioned. "Make sure that all your paperwork is in order." Anderson purports that your business can succeed with the help of mentors who grow into directors and advisors who guide you as your company develops.

Case Presentation

*Dr. Mitchell Sanders, President and CEO
Expressive Constructs, Inc.
Worcester, MA*

Six months ago Dr. Mitchell Sanders began his company, Expressive Constructs, Inc., which produces protein expression systems and deals with protein stabilization, innovations in liquid chromatography, and equipment validation. Due to intellectual property issues, the products could not be discussed in great detail. Sanders feels that his products have a potential billion-



Dr. Mitchell Sanders presents his company's business plan.

dollar market. Life scientists, academic laboratories, the biotechnology and pharmaceutical industries comprise his target market.

Sanders plans to develop products with a high profit to production ratio and capture 5 percent of the life science market within five years. His credo is: "Turn research problems into discoveries." To reach this goal he intends to obtain a proprietary stance through patents and trademarks. The products that Expressive Constructs, Inc. produce will become important as technical innovations for life science research companies.

Presently the company occupies space in ECitech Park where the monthly rent is only \$150 as opposed to a \$25,000/month figure at a biotech park. By using refurbished equipment from WPI, Sanders is spending \$22,000 instead of \$130,000 for new apparatus. His pre-venture sources of financing - a total of \$57,000 - came from private investments as well as a private loan. The total cost of startup, including the laboratory lease, capital equipment, legal fees and insurance, and general and administrative costs amounts to \$573,000.

Sanders has already formed alliances with the Perkin Elmer and Hoffman LaRoche Pharmaceutical companies. He has also established good ties with suppliers through BioRad Laboratories. His present distributors include Technika, Midwest Scientific, and Phenix. The alliances with the pharmaceutical companies could lead to lifetime licenses, which cost approximately \$100,000. The advertising campaign for Expressive Constructs, Inc. has consisted thus far of direct mail promotions, trade

shows, exposure through distributors, and a web site.

By his own admission, Sanders' business plan is a standard boilerplate that undervalues his company. His research into this field though indicates that he has created "high-tech products and a protein to validate the instrument," which form a "perfect marriage." Sanders cites four points that he feels place him on solid ground with his competition:

- Proprietary products in high demand,
- Low overhead,
- Strong ties with academia,
- Strategic alliances with the research product and biotechnology industries.

To proceed with this business venture Sanders is seeking \$130,000. With the funds he intends to mount an aggressive marketing campaign, seek licensing for his products, and cover production costs. In five years, Sanders sees Expressive Constructs, Inc. earning \$27 million in revenues and having products licensed with pharmaceutical and biotechnology companies. He feels his products will become a common name among life scientists throughout the country. ►

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Which Horse to Ride

Continued from page 3

General Partnership

If two or more persons simply start a business without forming any entity, those persons probably will be a general partnership. Other possibilities would be a sole proprietorship with employee(s) or several sole proprietors acting together as independent contractors. There are numerous factors that indicate whether the persons are indeed a general partnership. A key factor is whether the persons intend to share any *profits* from the business. If this is the case, it is presumed that the persons are a general partnership. There does not need to be any written agreement for a general partnership to exist, and no filing need be made with a governmental agency. As a consequence, general partnerships can be quite flexible with little to no mandatory formalities. For these reasons, general partnerships can be attractive for some purposes. However, general partnerships suffer from the same shortcomings as sole proprietorships. First, each partner in a general partnership is generally liable for all partnership obligations (ie, has no limited liability). Second, because of this general liability, it is uncommon for investors to make equity investments in a general partnership (ie, become a general partner themselves). Debt financing, while still uncommon, would not expose the investor to general liability but would limit the investor's ability to participate in the upside. Remember, if the investor is found to be sharing in profits of the general partnership, the investor could find itself held to the general liability of a general partner!

Limited Partnership

Think of a limited partnership as a further development of the general partnership - a general partnership with the addition of limited partners. LPs must always have at least one general partner and one limited partner. The general partner is generally responsible for running the LP. The limited partners are typically passive investors who do not participate in the running of the LP. Indeed, if they participate in the control of the LP, they may be held to be general partners therefore having general liability for all LP obligations. The great benefit given to limited partners in return for their passive nature is limited liability.

As a condition to this limited liability, the LP must comply with the statute authorizing the formation of LPs. First, a filing must be made with the appropriate governmental agency to

form the LP. Second, the name of the LP itself must contain the words "Limited Partnership" or the abbreviation "LP" or otherwise convey the fact that the entity is an LP. A reason for these requirements is to give notice to those dealing with the LP that this entity is different from a general partnership (where all partners are liable for partnership obligations). However, these LP statutes typically maintain the flexibility inherent in general partnerships so within the guidelines given, a wide variety of structures are possible with much discretion left to the people forming the LP. Areas of great flexibility include structuring the various equity interests in the LP (which may include classes and series of partners), scope of authority of the general partner, and related approval, consent and voting rights of the various classes of limited partners.

LP advantages are that they permit investors to have limited liability with respect to their investment and they typically have flow-through tax treatment thereby merely having the tax effect "flow through" to the partners of the LP. At this point, LPs are familiar entities and are quite accepted in the marketplace. Disadvantages include a general taint given to LPs due to some speculative, highly-publicized market failures of limited partnerships. Also, LPs are required to have at least one general partner which has general liability. This requirement is often satisfied by having a corporation act as general partner, but this can add unwanted cost to start-up venture. Finally, the contractual flexibility comes at a price — the flexibility means that rarely are two LPs set up the same. As a result, drafters can't simply "push a button on the word processor" and spit out the forms to create an LP. This typically results in higher formation costs than a corporation.

Corporations

A corporation is a widely known and accepted form of business entity. In a corporation, the stockholders are the equity owners with limited liability and elect the directors. The directors have general oversight responsibility for the operation of the business and elect the officers. The officers (typically president, one or more vice presidents, treasurer and secretary or clerk) are charged with the day to day operations of the business. Most people have a general understanding as to the roles of each of these groups in a corporation. This is due in part to the fact that these roles are defined to large extent by the authorizing statute (a difference from the flexible LP and LLC statutes).

Corporations can be formed quite easily by a filing with the appropriate governmental agency and use of a name that indicates the corporate nature of the entity (again, providing notice as to the type of entity). Different rights in the earnings of the corporation can be given to different investors through common stock, preferred stock, debt securities (which may be convertible into equity securities) or a combination of these items. Usually there are additional considerations when a closely-held corporation is formed. For example, the stockholders may enter an agreement addressing voting issues, succession issues and/or restrictions on the transferability of their stock.

A major disadvantage of corporations is that most corporations do not qualify for "flow-through" taxation and are subject to two levels of taxation, one at the corporate level and one at the stockholder level when earnings are distributed to stockholders through a dividend. A certain type of corporation (called Subchapter S corporations after the Internal Revenue Code classification) are exempt from this double taxation and are given flow-through tax treatment. However, because anything good comes with restrictions, Subchapter S corporations, with limited exceptions, must have fewer than 35 stockholders (who must all be individuals and United States residents) and can only issue one class of stock. These limitations mean that Subchapter S corporations typically cannot be used for third party investment. It should be noted that Subchapter S treatment merely relates to tax treatment and has no impact on the underlying limited liability or other corporate characteristics of the corporation. ►

Continues

Limited Liability Companies

Finally, I think LLCs are the wave of the future. In an LLC, the equity owners are called members. These members all have limited liability and, if they so desire, can manage the business of the LLC. However, the members can appoint managers to run the business. Analogizing to a corporation, members are like the stockholders and managers are like directors and officers combined. However, the LLC authorizing statutes follow the flexible vein like the LP statutes rather than the mandatory corporate vein. Like an LP, the people forming the LLC are given great discretion in structuring the management style of the LLC, any classes of equity interests of the members, approval, consent and authorization rights of the different classes of members, whether or not to have managers, and the relationship between members and managers. For these reasons, LLCs are becoming popular joint venture vehicles. Finally, most LLCs will qualify for flow-through tax treatment.

The advantages of LLCs are best shown by contrasting LLCs with other business entities. Compared to LPs, LLCs do not require an entity with general liability and LLCs permit the equity owners (members) of the LLCs to run the business of the LLC (if that is the structure that is desired). Compared to corporations, LLCs qualify for flow-through tax treatment without any Subchapter S restrictions and permit greater flexibility in structuring the management, operation and equity interests in the LLC. Disadvantages are primarily the relatively new nature of LLCs (which means that people are still becoming comfortable with LLCs) and the comparatively higher formation costs. Because of the great flexibility (even greater than LPs), formation of an LLC generally is a relatively unique process.

Conclusion

There is no one business entity that is right for all businesses. Many factors should be considered before selecting an entity to make sure you choose one that you are comfortable with and that will best enable you to fulfill your goals for your business. Hopefully, this article has been helpful in putting some of the considerations on the table for your consideration.

Finally, congratulations for considering this important issue before going too far in the creation of your business. Wise planning now will protect you from unexpected adverse occurrences in the future.

David L. Renauld is a business attorney with Mirick O'Connell admitted in both Massachusetts and Delaware. Dave can be reached at (508) 791-8500 or by email at direnauld@modl.com. VF

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Founded in 1916, Mirick O'Connell is among New England's oldest and one of Central Massachusetts' largest law firms.

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New Year's Day – Friday, January 1
M.L. King, Jr. Day – Monday, January 18
President's Day – Monday, February 15
Patriot's Day – Monday, April 19
Memorial Day – Monday, May 31
Independence Day – Sunday, July 4
(Observed Monday, July 5)
Labor Day – Monday, September 6
Columbus Day – Monday, October 11
Veteran's Day – Thursday, November 11
Thanksgiving – Thursday, November 25
Christmas – Saturday, December 25
Daylight Savings Time begins on Sunday, April 4 and ends on Sunday, October 31.

WPI Venture Forum

CALENDAR OF EVENTS

March 16, 1999 - Creating A Corporate Image
April 20, 1999 - Finding The Funds
May 13, 1999 - Breakfast with Ken Olsen
May 18, 1999 - Getting Real Customers To Pay Real Money For Your Product
June 15, 1999 - Business Plan Contest

The Top Line Is The Real Bottom Line

By Dave Rothfeld, President, Creative Sales + Management

I recently attended a meeting with a corporate executive who was carrying on about the need to downsize, penny pinch, budget trim, reduce overhead and become more efficient. After listening patiently for a few minutes, I couldn't hold back and interrupted with "Enough with the bottom line! Let's pay attention to the top line – that's where the real action is!" Needless to say, the room got real quiet as he was surprised to hear me say words that were, to his mind, sacrilegious. "Down with the bottom line?" he said. "Are you crazy?" "Let me explain", I continued, "In business, you can increase your revenues your profits in only two ways: Cut costs or increase revenues." Most businesses are obsessed with reducing overhead and becoming more efficient - the popular "bottom-line approach". But smart companies are redirecting their efforts into expanding business, creating value and becoming more effective – in effect, increasing their "top line". The most direct way is to focus on the customers you already have. Here are three ways to boost your top line by doing better business with and through your customers.

1. Cultivate Long-Term Business Relationships. In their best selling book, *The Discipline of Market Leaders*, consultants Michael Treacy and Fred Wiersema contend that market leaders excel in one of three disciplines – operational excellence, product leadership, or customer intimacy – while staying competitive in the other two. The first two disciplines are easily understood. "Customer intimacy" is another way of saying "long-term business relationship". Customer intimacy bids farewell to the notion of

sales as one-time transactions, and seeks to develop substantial knowledge of the customer's unique needs. To do this, you need to be a relationship builder. Club memberships, where customers sign up to be part of a company family and receive special benefits like a private 800-number, are a good way of achieving customer intimacy. Home Depot, Southwest Airlines and the Price Club all use this concept to tie customers to their business. What "VIP" programs could you incorporate into your marketing plans?

2. Use Your Best Customers As Ambassadors. Those who do business with you are situated on a continuum. At the low end are the basic customers – those who buy from you but really aren't tied to you. A better price or selection from someone else would take them away in a heartbeat. Then there are patrons – those who are loyal to you and keep giving you their business, even though they may get a better deal elsewhere. At the high end are the ambassadors. They act as your advocates by encouraging others to do business with you. In effect, they become your extended sales force. Here's an example: I recently presented a Total Quality Selling sales training for a distribution company. The VP of sales thought the meeting went well, and afterwards engaged me as a consultant for reinforcement and on-going training. At the same time, another company was considering me for training. Although my client didn't know the other decision maker, he agreed to call her and talk about the value his company had received from my program. In this way, he became my ambassador. Ask your best customers

to introduce you to their contacts; this is an easy way to turn your customers into ambassadors.

3. Increase sales By Improving Incentives. Historically, managers have been rewarded for implementing policies, reducing overhead, and keeping their troops in line. Employees should be rewarded for doing their jobs efficiently. This "lean and mean" approach is the essence of bottom-line strategy. With a top –line strategy, managers are now responsible for expanding business and employees for developing long-term customer relationships. Staples, an office supply retailer that didn't even exist 15 years ago, has been posting high total returns to investors. They did it by becoming a customer-intimate organization – and by rewarding managers and employees for creating that intimacy. One method is a mystery shopper program: Consultants are sent incognito into Staples stores to shop, and to evaluate customer service. Managers whose employees score highest – as well as the employees themselves – see the results in their paychecks.

With whom would you rather do business: Bottom-liners who put all their energy into cutting back wherever they can, or top-liners whose primary focus is to provide you with superior service? Today the top line is the real bottom line.

Dave Rothfeld is the President of Creative Sales + Management (CS+M), a sales and management consulting firm located in Natick, Massachusetts. The firm is dedicated to helping professionals develop the skills necessary to enhance their business and increase their market share. Dave can be reached at 508-655-9444, email: dave@csm4tqs.com or www.csm4tqs.com. VF

Central Massachusetts College and University Resources for Entrepreneurs

By *McRae C. Banks, Ph.D. (macb@wpi.edu)* and *Harry G. Stoddard, Prof. and Dept. Head, Department of Management WPI*

Periodically I receive telephone calls from entrepreneurs or aspiring entrepreneurs asking for assistance with business issues. Often they tell me that they do not know where to turn. Having been an entrepreneur, having worked for entrepreneurial and small companies, and having consulted with and studied entrepreneurs for years, I can relate to their concerns. To help bring some clarity to this situation, this short article will provide an overview of the services offered by central Massachusetts colleges and universities in the Colleges of Worcester Consortium. I do not claim that this reflects everything that each educational institution offers, but it was what we were able to learn based on telephone calls to each university and from reviewing their websites.

We classify educational resources into five categories. These are: professional consulting, student consulting, academic courses, non-credit (continuing education) courses, and contract research. A discussion of each category follows. (When WPI is active in a category I have listed it first. One should get something for writing an article, even if it is only first billing!)

Professional Consulting

There is one university-based resource for professional consulting and it is available FREE to current and aspiring small business owners. It is the Small Business Development Center (SBDC) at Clark University. The assistance is confidential and typically focuses on business planning (from the idea stage to expansion plans), financing, and management problem solving. For more information on this excellent resource, contact the SBDC at (508) 793-7615.

Certainly many faculty members, most likely at all the colleges and universities, provide professional consulting services on a contract basis. However, such services are individually offered and contracted so they are not included here. If you are seeking a consultant with particular expertise, try contacting the public relations and information offices at the colleges and universities.

Student Consulting

WPI offers student consulting through its projects program. This resource may be free or it may incur a charge of up to \$4,000.

WPI GQP

The GQP is a semester-length graduation requirement for the MBA program. Because most of WPI's MBA students are mature working professionals with technical backgrounds, businesses can be sure that they are getting a quality product. For more information, contact Norm Wilkinson at (508) 831-5218.

WPI IQP

Interdisciplinary teams of undergraduate students perform the IQP, typically in their junior year. It must focus on a problem at the intersection of technology and society, meaning that there must be some broader social purpose involved. An example is a product or service that will help reduce human suffering. For more information about the IQP, refer to the WPI website (<http://www.wpi.edu> <<http://www.wpi.edu>>) or contact Chuck Kornik at (508) 831-5457.

WPI MQP

Teams of undergraduate students conduct the MQP, typically in their senior year. It must be focused in some way on the students' major. The

possibilities under this project type are endless, ranging from something broad, such as a feasibility analysis or business plan, to something specific, such as product or service development, marketing research, product testing, and so forth. For more information about the MQP contact the individual department that seems most related to the problem that you have or Chuck Kornik at (508) 831-5457.

Both the IQP and the MQP can be completed in a relatively short period of about seven weeks, although they are more commonly completed over about eight months.

Other Student Consulting Opportunities

Many university and college courses require students to complete some form of limited scope project. If you have such limited scope project needs you should contact the relevant department and discuss your needs with the department head. Alternatively, contact just about any department head and he or she will place you in contact with the appropriate department.

Academic Courses

Six colleges and universities in the area offer courses in Small Business Management and/or Entrepreneurship.

WPI

The Department of Management offers four specific courses, three at the undergraduate level and one at the graduate level. The undergraduate courses are Small Business Management (MG3960), Introduction to Entrepreneurship (ID1050), and Special Studies in Entre- ►

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Directors, Advisors, Mentors

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Panel Review

Robert Anderson, tonight's featured speaker, said that Sanders' board of advisors looked strong, but that his board of directors was too large at seven members and needed some fine-tuning. Sanders should recruit members from the high-tech and biotech areas as well as men and women with general management expertise.

Anderson offered congratulations on Sanders' idea to use suppliers to bootstrap his company. Eventually though his focus should be on the direction he wants the company to take. Anderson gave cautious praise on Sanders' budget. He encouraged him to be more conservative and use care when selling pieces of his company. Any new monies that he acquires should be put back into the business to help it grow. Anderson suggested that a business partner might alleviate some of the financial burden.

One of the biggest concerns, according to Anderson, is the husband-wife team aspect of the company. Many professional investors avoid this type of an arrangement. Such an alliance poses an added financial risk for the entire family.

Steven Grossman, President of Connections in HR, Inc., focused on staffing strategies. He suggested that Sanders train and develop his current staff. A management team could help the company with its marketing and sales campaigns by examining both long- and short-term as well as interim staffing issues. Hiring people with "industry specific skills" can become an invaluable tactic for the company. Sanders should identify his strengths and backfill the company with complementary employees. Grossman feels that Sanders may have underestimated his market.

Brian Johnson, a partner in Zero Stage Capital, agreed with the others' comments. From the perspective of a venture capital firm, Johnson would not invest in Expressive Constructs, Inc. Johnson viewed the company as a great lifestyle company, but not the type that an institutional investor would endow. He based his decision on the husband-wife management team structure and the business plan, which he indicated "is not ready for prime time." A CEO must have a "firm grasp on today; he can't look to the future." The business plan is critical to successful soliciting of funds since it offers a first impression to investors. If a company who had received venture capital funding had reviewed the business plan, their positive feedback could have produced a

more accurate and well-fleshed out document.

Johnson suggested that Sanders review a list of companies who have received institutional financing. This list is published in the Boston Globe. He recommended contacting some of the successful companies "to pick their brains." Designing a business plan after networking with others can help to avoid the mistakes that unsuccessful companies have already made. He also advised that Sanders demonstrate a need for more money than he was presently asking for. However, he must clearly indicate the growth potential in order to produce a viable business plan. As a personal preference, Johnson's final suggestion was to change or shorten the company name.

Sanders fielded questions from the panelists and the audience. He agreed with many of the suggestions of the experts and expressed his appreciation at their well-intentioned advice.

Phyllis Hanlon, a freelance writer, writes for magazines as well as the corporate world. She has written press releases, newsletters, brochures, business letters, software manuals, and print ads for local area businesses. Phyllis can be reached by email (Polishpen@aol.com), phone (508-248-5161), or fax (508-248-5353). VF

Central Mass Colleges

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preneurship (varies annually but typically cross-listed as ID405X). Several other courses are planned in the next two years. The graduate course is MG592, Entrepreneurship and New Venture Creation. However, many courses in the MBA program may be of interest. Some of these are Negotiations (MG533), Managing Technological Innovation (MG546), Technology Transfer and New Product Development (MG562), and Marketing of Emerging Technologies (MG563).

Assumption College

The MBA program at Assumption offers a course in Small Business Management (MBA711).

Becker College

The undergraduate program offers a course in Small Business Management (MG250).

Clark Graduate School of Management

Clark offers two courses that are specifically entrepreneurially oriented. They are MGMT5790, New Venture Management, and MGMT5791, New Ventures Seminar. Another course that has clear implications for entrepreneurs is MKT5494, Product Management. ►

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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 _____



Fitchburg State College

FSC offers two undergraduate courses with the same name, Small Business Management. The descriptions are similar so it is possible that there is only one course but it went through a number and description change resulting in a dual listing. The numbers are BSAD3340 and BSAD4430.

Quinsigamond Community College

The Management Department offers a course, Managing the Small Business (MT252).

Non-credit (Continuing Education) Courses

Three colleges and universities offer non-credit courses related to small business management. All of these involve a fee.

WPI Division of Continuing Education

The Division of Continuing Education at WPI offers many programs. Many general management skills programs will be of interest to entre-

preneurs and small business owners and managers. For more information contact Arlene Lowenstein at (508) 831-5517.

WPI Venture Forum

You are reading this newsletter so I assume you know about the high quality monthly programs we offer. If not, please come join us on the third Tuesday of each month. We meet at 6:00 p.m. in Kinnecut Hall, Salisbury Labs, at WPI. Call (508) 831-5075 for more information.

Clark University SBDC

In addition to professional consulting services, the SBDC offers a number of workshops and seminars each year. Contact Karen Morrison at (508) 793-7615 for more information.

Worcester State College

WSC offers a program, Running a Small Business.

Contract Research

Most colleges and universities conduct contract research for businesses. Thus, if you want to test

particular materials, model a process, or even perform routine lab tests, a college or university in the area will be able to accommodate you. These services are fee-based and are often paid in the form of a research grant to a specific researcher. Contact the dean of research at the various schools to get more information about how the school can meet your specific needs.

Other institutions indicated that they do not offer any courses, seminars, or other support for entrepreneurs or small businesses. They were Anna Maria College, College of the Holy Cross, Tufts University (Veterinary Medicine), and UMass Medical. This does not necessarily mean that one should not contact these institutions for assistance. For example, UMass Medical will certainly have an interest in medical-related businesses or ideas and they have a particularly strong technology transfer program. Similarly, people with ideas related to the liberal arts, such as a music business or an archeology software product, should be sure to make contact faculty members at colleges with those programs to gain their insights.

I can not stress too strongly that there may be resources for entrepreneurs that are not listed in this article. If that is the case I hope people will provide that information to me. At the same time I hope that if the specific assistance that you seek is not identified that you will contact one or more of the universities or colleges with your specific request. I think I can speak for all of the colleges and universities when saying that we look forward to helping you meet your assistance needs.

Happy venturing!