



Venture

VENTURE FORUM NEWS

To inspire and facilitate technology based entrepreneurial activity and economic growth
www.wpiventureforum.org

Volume 10 No. 3
November 2000

A look at the up-coming meeting

Going global

By Phyllis Hanlon

Tuesday, November 21, 2000
WPI Campus, Salisbury Lab, Kinnicutt Hall
Registration-6:00 pm
Meeting Begins-6:30 pm
Admission Fee- \$5 Members
\$10 Non-members

Almost everyone agrees that technology makes the world a smaller place. Speed-of-light flights bring you to your international destination in a matter of hours. Callers on opposite sides of the globe can be instantly linked. Satellite connections deliver images of a Middle East conflict or Olympic sporting event to your living room in real time. With these advances, however, comes a new set of issues—especially for businesses—as they expand from a corner store to a global company, serving customers around the world.

Anna Sabasteanski, the Global Practice Director for E-Commerce at Tanning Technology in Boston, shares her expertise in dealing with international companies at the November Venture Forum meeting. During her more than twenty years in the online delivery systems industry, she has faced, and successfully met, enormous information technology chal-



Anna Sabasteanski, the Global Practice Director for E-Commerce at Tanning Technology in Boston

lenges for Global 2000 financial services, media and entertainment, telecommunications, and healthcare firms. Currently, Sabasteanski is researching asset management, intellectual property and reusability questions in relation to e-commerce.

Twenty years ago, Sabasteanski worked with an information provider site to compete with LEXIS-NEXIS, the world's premier worldwide legal information resource. Ever since, she has been instrumental in bringing business value to advanced technical implementations. Creating systems where none have existed before has become her trademark.

In 1994, Sabasteanski created her first web site targeting bio-medical researchers and physicians. The Internet was still in its infancy at that time, so she wrote her own browser and developed a payment gateway. She managed to do what many web sites haven't – make money. The site was such a success that *The Economist* published a feature on Sabasteanski and her brainchild.

Remaining one step ahead of the competition has been a key component of Sabasteanski's game plan. Using her web expertise wisely, she has propelled companies such as Fleet Bank, France Telecom, Congressional Quarterly and VeriFone years ahead of their industry rivals. In her present position as senior consultant, advisor and auditor, at Tanning, she continues to provide customized solutions for clients by combining the best practices and reusable components of past projects with innovative, new strategies.

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Letter from the chair

One of the most frequently asked questions

By Dick Prince

People often approach me regarding ways in which they can help the WPI Venture Forum and WPI. Their key question is who to contact?

The WPI Venture Forum is a volunteer organization, relying heavily upon its members to provide the program structure and participants for all of our events. In answer to this question, and to make becoming involved easier, here is a brief overview of the functions of our committees and contact names and numbers. The following groups, with assistance from the Executive Committee, organize themselves, provide the content and conduct the various events sponsored by the Forum:

- *The Monthly Program Committee* plans the topics, speakers and format for the Forum's monthly meetings. A moderator is assigned to each meeting and, with the help of the committee, selects a guest speaker, a business case presenter and a panel of experts to evaluate the case. Jerry Shapiro 508-872-8725
- *The Newsletter Committee* assists in the solicitation and preparation of material for the various sections of WPI Venture Forum Newsletter, our most important advertising and promotional tool. Volunteer co-editors collect articles, edit text, proofread the material and work with a graphic designer/printer to ensure timely publication of the newsletter. Marcia Priestley 508-869-2280 and Phyllis Hanlon 508-248-5161
- *The Radio Show Committee* plans the format and content for each of the weekly radio shows focusing on entrepreneurial advice and experience. Selecting subjects and guests, and participating in the hosting of the shows are all part of this committee's responsibilities. Bob Hokanson 508-869-2984
- *The Special Programs Committee* plans and oversees the execution of the Business Plan Contest, the Business Plan Workshop and other special events, such as the breakfast with Lt. Governor Jane Swift in 2000.



Members of this committee solicit and evaluate business plans, lead or assist business plan workshops as well as plan and host special events throughout the year. Norm Brust 508-697-7200

- *The Marketing Committee* is responsible for increasing the exposure of the Forum and its events. Committee members work hard to recruit and maintain membership as well. Some of their other functions include developing and implementing marketing plans for the Forum and its events, maintaining the Forum's web site, coordinating marketing efforts with other organizations and conducting membership drives and networking programs. Shari Worthington 508-755-5242

The WPI Venture Forum welcomes inquiries regarding participation as a featured speaker or guest, a business case presenter, a panelist or a moderator on our radio show. For more information, please call the WPI Venture Forum at 508-831-5075.

I hope this overview assists you in making the decision to join the volunteers who contribute generously of their time and experience to make the WPI Venture Forum a success.

Dick Prince

Dick Prince is retired from Norton Company and Siebe, plc and is presently a partner in Brooksville Associates, a merger and acquisition company specializing in the health and safety industry. VF

Past meeting summary

“eBusiness: looking forward”

By Jeffrey E. Swaim

Charles Rutstein, research director at Forrester Research, gave the keynote presentation on the past, present and future of e-commerce and the development of the e-marketplace at October's Venture Forum meeting. Forrester Research is one of the leading Internet economy research firms in the world. Rutstein is quoted regularly in the print media and has appeared on ABC, NBC, CNBC, MSNBC and the “McNeil-Lehrer News Hour.”

Rutstein described today's e-commerce landscape and the growth prospects for e-commerce over the next few years. By 2004, he believes that e-commerce will represent approximately 8.6 percent of total worldwide sales.

Rutstein distinguished between the business-to-business (B2B) and business-to-consumer (B2C) sectors of e-commerce. Despite all the hype about the B2C marketplace, Rutstein's research makes it clear that B2B represents a substantially larger part of the e-marketplace than does B2C. This imbalance is likely to continue over the coming years as U.S. companies are forecasting a dramatic increase in their online trade.

According to Rutstein, the increased demand for online commerce is leading to the development of more sophisticated e-marketplaces designed to bring buyers and sellers together more efficiently than current B2B models permit. Approximately 70 percent of buyers and sellers surveyed anticipate that by 2002, they will purchase and sell products and services through an open Internet marketplace with many market participants rather than through traditional bilateral distribution channels.

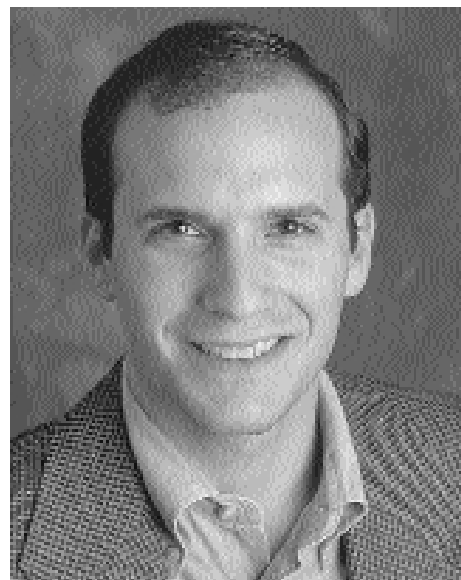
The development of these sophisticated e-marketplaces will not come without significant casualties. Through 2001, Rutstein predicts that the tightening of capital markets, the relatively limited e-commerce transaction volume, and other economic factors will result in the failure

of up to 85-90 percent of dot coms. In 2002, after the initial weeding out of weaker e-commerce players, there will be a fortification period when buyers and sellers will demand more service and sophistication from e-marketplaces. Weaker e-marketplace companies who survived the initial bloodshed will merge, and large inefficient e-marketplaces that tried to be all things to all people will scale back to become more specialized. In 2003, during what Rutstein calls the “reconciliation” period, the e-marketplace will reach critical mass in terms of sales volume and buyers will lock into specific e-marketplaces.

In the mature e-marketplace, commercial relationships will be brokered in real time; common “rules engines” will replace traditional, complex negotiations between buyers and sellers; the costs of connecting buyers and sellers will disappear; information will be distributed and updated instantly, and market data will become common property of all market participants.

Rutstein concluded with some useful advice to entrepreneurs. While there are substantial investment dollars still available for start-ups in e-commerce, attracting investors is getting more difficult. Investors are demanding a faster path to profitability, recruiting personnel is becoming a real problem and the valuation multiples for Internet companies are quickly shrinking. He warned entrepreneurs to expect competition - any Internet space worth doing business in will attract at least a dozen well-funded competitors. According to Rutstein, while speed is essential, start-ups should be built to last rather than just built quickly.

Despite the tough marketplace conditions, Rutstein pointed out that great ideas can still change the world; smart entrepreneurs are still calling their own shots; great companies do well in any market, and the acceptance of failure has never been higher.



Charles Rutstein, Research Director for Forrester Research, Inc.

Case presentation

BandwidthCenter, Inc.

During the second part of October's meeting, Eric Borgeson and Pamela Mercanti, co-founders of BandwidthCenter, Inc., presented their business plan to the audience. BandwidthCenter, a Worcester-based builder and operator of Internet data centers (IDCs), is currently building its first IDC in Worcester, and anticipates opening several additional IDCs in various secondary markets throughout the United States over the next 18 months.

Borgeson and Mercanti explained what IDCs are; the competition in the industry; the industry outlook generally, and some of their strategies for expanding their business.

An experienced panel consisting of Andrew Clapp, a principal with Brook Venture Fund; Jay Wynn, CEO of BeGlobal, Inc.; and Lori Wassermann, who has held numerous human resources positions with several well-known high-tech companies, gave excellent feedback to BandwidthCenter regarding their business plan, presentation, business model, and HR issues. **VF**

WPI Venture Forum Calendar 2000-2001

WPI Campus
Salisbury Labs,
Kinnicutt Hall, Room 115

Registration – 6:00 p.m.
Program – 6:30 p.m.

Fee: \$5 members
\$10 non-members

Tuesday, November 21, 2000
Going Global

Tuesday, December 19, 2000
Networking and Perfecting Your
Pitch

Tuesday, January 16, 2001
Funding Your Business

Tuesday, February 20, 2001
Finding and Retaining Talent

Tuesday, March 20, 2001
Marketing

Tuesday, April 17, 2001
Sales and Distribution
Channels – *including Internet*

Tuesday, May 15, 2001
Negotiation

Tuesday, June 12, 2001
Business Plan Contest

**8th Annual Business Plan
Contest – June 12, 2001**

Membership information –
please visit the WPI Venture
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www.wpiventureforum.org

Going global

Continued from front page

E-business involves understanding of international regulatory issues as well as different cultures and local environments. Since she has logged almost one million flier miles during the last year with Tanning, Sabasteanski possesses practical, first-hand knowledge of global business issues. This three-time winner of the Massachusetts E-Commerce Association's top ten e-commerce leaders award will offer valuable insight into taking your company into the global business village successfully.

Case presentation

Jack Heelan, Vice president, Sales
Vitel Software, Inc.
108 Grove Street
Worcester, MA 01605
508-831-9700 phone
508-751-4052 fax
www.vitelsoftware.com

Have you ever wondered what your company's messaging activity is or which corporate mailboxes are not in use? Are you concerned with disk capacity and available ports? Would your company benefit from a breakdown of its monthly telecommunications expenses? Vitel Software, Inc. will present its plan for offering commercial software solutions to problems such as these that the telecommunications industry faces every day. Jack Heelan, Vice President of Sales, will elaborate on the company's products, marketing, sales and exit strategies as well other key points contained in its business plan.

Vitel, whose customers include Fortune 1000 companies, universities, healthcare and service organizations, and government and financial institutions, currently has six commercial products that streamline the management of business telecommunications. One of Vitel's innovative software programs enables corporate end-users, service providers and large global enterprises to efficiently administer a company's voice messaging system. Specialized software collects, organizes and reports statistics for PBX, voice mail and network platforms systems.

Additionally, Vitel has created a telecommunications bill management software program designed to aggregate all expenses, including 800,

local, cellular, data, etc. This program creates databases for reporting, monitoring, auditing and chargeback on all telecommunications activity.

Currently, Vitel is seeking \$1.5 million in equity funding that will be used to:

- Develop its new Enterprise Architecture product, a common foundation upon which applications are built
- Develop the corporate infrastructure
- Build the customer support staff
- Develop and implement marketing programs

In his presentation, Heelan will focus on marketing strategies and the development of international marketing plans. He will examine new economy pricing models, and is interested in exploring how Vitel intends to price its products in the current roller coaster market.

Panelists

Three experts will evaluate and offer comments on Vitel Software's presentation and its written business plan. Panelists include:

- Ken Daley of Citizen's Capital, 28 State Street, Boston
- Thomas Wharton, Director Worcester Infotech Project, Worcester
- Guest speaker Anna Sabasteanski, Global Practice Director, E-Commerce at Tanning Technology, Boston

A question and answer period will follow the program. **VF**

Executive Safeguard

So you want to buy a manufacturing business – acquisition checklist, part III

By Richard H. Prince

Parts I and II covered a variety of subjects relating to the acquisition of a business. We are now prepared to complete our process by looking at facilities, equipment and financial data.

Facilities and equipment

Remember, the business might look great, but if the roof leaks, your financing may end up in the bucket! If you are going to buy a building and equipment, check it all out. Is the building and equipment owned or leased? What about environmental concerns such as hazardous waste? Is there a shipping dock and what is its condition? Are taxes and insurance up to date? What is the efficiency of the operation? Is there surplus equipment or are any buildings sitting idle? Make sure you check the office equipment.

You may want to have an independent appraisal or an engineering study done of all facilities and equipment. In some cases, this may be necessary in order to arrive at a selling price. Have the owners kept the equipment running efficiently? What is the age and condition? Do they have repair records and depreciation schedules? Are operating certificates up to date?

Much of your investment will be put into the building and equipment to keep the operation efficient for your process, comfortable for your employees and presentable to your customers. Knowing what you are buying today will help you to plan your future.

Financial data

\$\$\$ and sense: financial data is the measurement of the success or failure of a business. It is also the area where you may want assistance from a good accountant. Together, ask the first question: Are the financial reports audited? This is a major issue when it comes to reliability of information. If they are not audited you should probably plan on digging a lot deeper.

Next, look for as much information as you can find: annual statements, tax returns, chart of accounts, cash flow statements, order book

analyses, net profit margin reports, budgets, capital plans, working capital requirements, P&L statements, balance sheets, strategic plans, financial plans, performance schedules, cost reduction projects, overheads, manpower plans, payroll analyses and inventory schedules.

You may say that some of this is not financial information, but it is all a measurement of the business and it must tie together. Use this information to establish your own business plan and prepare for the future.

Assets and liabilities

As far as assets go, count the cash! Ask for the latest accounts receivable aging report and check the age and number of accounts. Is there a provision for bad debt? Look at inventories for the past five years. What is the relationship to current assets? What are pricing methods, accounting procedures and practices? What is the provision for obsolete or slow moving stock? What are turns? Is there any consignment inventory? Perform an analysis of notes receivable, investments and other assets. Do they hold any patents or trademarks?

When it comes to liabilities, always check the current federal and state tax status and tax payments for the past three to five years. Next, check the payables and the day's payables outstanding. How the owners pay their bills may be the basis for their relationships with suppliers. If they are

poor performers, it may cost you a lot more money up front to reestablish good credit.

Look for commitments on new buildings, equipment and inventories. Analyze any outstanding long-term loans. What type of insurance coverage is there? What is their litigation record - past and present? Will they assume liability for everything before the acquisition? Make sure you check the status of any environmental concerns, with both product and property. I have seen several potential acquisitions fall apart recently because of 'surprise' environmental problems. Also, look for any outstanding regulatory issues, because these will have to be corrected either by the owner or by you at your expense.

At this point I think we have covered most of the items. I have introduced you to the major issues to be aware of when buying a business. To list all the issues would be virtually impossible, and probably incredibly boring, so I am going to leave you with one last bit of advice to assist you with your investigation process.

The final checklist! Here are ten steps to take when buying a business:

- Go to the bookstore or library and read as much as you can about the subject.
- Talk to people who have been through it. Find a mentor if you can.
- Know when to ask for help.

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CEOs4Hire™

Use global resources to achieve production goals and increase profit

By Darleen Flaig

Consider this scenario: you have a great product line, a strong marketing program, and customers can't get enough of your product. Your advertising success is surpassed only by word-of-mouth accolades. The orders continue to pour in. You phone the manufacturer to share the good news and discuss production for the next 90 days. You are ecstatic, but your enthusiasm is shattered by the sobering response on the other end of the line: "We have to talk."

An emergency face-to-face meeting reveals a major capacity problem. Orders cannot be produced fast enough to meet the delivery times you promised. Sure, the manufacturer could be asked to extend the workday, but overtime usually comes with a price increase, and the prices are fixed for the next nine months.

Where can you find additional capacity at reasonable prices? Most of the domestic factories you contact are in the same situation as the one being used now. A friend suggests manufacturing overseas, but what should you research before choosing an overseas manufacturer? The following questions and answers are provided to limit the risk of manufacturing a product globally.

Finding a reputable and reliable manufacturer

Finding a manufacturer is far easier than determining their reputability. Using trade organizations, trade journals/directories and the Internet to find names and addresses of companies who can manufacture your product is just the begin-

ning. Asking for names of recommended suppliers from people who have produced product similar to yours is the best way, however, of finding reputable manufacturers. Once you have the list of suppliers to contact, construct your own list of interview questions. These may include, but certainly not be limited to:

- What types of products are produced?
- What is their area of expertise?
- From where are their raw materials sourced?
- Who are their major customers (they may not be able to furnish names if they are under a strict non-disclosure agreement)?
- What are the usual tools they need to begin a project (actual sample, prototype, specifications, etc.)?
- How does the factory control its quality?
- What percentage of goods made are rejected for quality, and why?
- What happens to the goods that are rejected?

(Quick Tip: If a manufacturer states that it produces all types of goods, be very cautious. Manufacturing expertise is specialized by company and by country, due to raw material sources, labor forces and historic expertise in producing a particular product.)

Ensuring the manufacturer will keep designs confidential

First, ask the potential manufacturer to sign a non-disclosure agreement, and, if necessary, a

non-compete agreement. These agreements should be prepared for you by a competent legal advisor.

Second, while interviewing the manufacturer and prior to awarding an order, ask for whom they produce. Some manufacturers design, produce and sell their own line to wholesalers; others produce only other people's designs. The manufacturer who does not have a line of his own exists only to produce other people's product and is usually far more protective of your designs.

Last, if your product is protected by a patent or copyright, be certain to stamp that on the drawing and on all documentation.

Ensuring the product will be produced correctly

The best way to communicate the details of the product is with a written specification that is accompanied by a matching final prototype. The specification should have critical dimensions and tolerances clearly indicated, as well as color samples attached. (Please note that color is not exactly translatable among various materials, so it is best to obtain a color chip or sample from the same type of material you will be using for your product.)

The specification might also have a list, or a bill of materials, that describes all of the components needed for the product, including packaging and tags. (Quick Tip: Need help in determining what type of packaging is best for your

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Acquisition checklist, part III

Continued from page 5

- Select reliable accountants and attorneys who have experience with the acquisition process.
- Select a merger and acquisition intermediary that will help you with the process and keep a slight distance between you and the seller.
- Listen to your advisors.
- Listen to the owners, employees, retirees, suppliers, customers... and the pulse of the business you are about to buy.
- Make a checklist and follow it. No Shortcuts!
- Project into the future. You may have to be with this business for many years to come.
- Remember the basics... stop, look and listen. There may be a freight train coming! **VF**



PRIESTLEY COMMUNICATIONS, INC.

*"Easy reading is damned
hard writing"*

— Nathaniel Hawthorne

Mirick O'Connell names Dingman to head IP practice group

Brian M. Dingman, immediate past Chairman of the WPI Venture Forum, has been chosen to head the newly expanded Intellectual Property Practice Group at Mirick O'Connell, Attorneys At Law. Jenifer E. Haeckl, Dingman's associate of four years, has also been appointed to the Intellectual Property Practice Group.

Dingman of Sudbury and Haeckl of Worcester join the IP Practice Group from Nields, Lemack & Dingman of Westboro, where Dingman had been a co-founder and principal since 1993.

"Our new attorneys add experience that complements our existing IP practice and give us the broad range of capabilities needed for a full-service practice group," said Managing Partner David L. Lougee. "Mirick O'Connell has a distinguished record in IP litigation, including many cases involving trademarks, trade secrets and various forms of unfair competition. In addition, our corporate practice often includes the organization and financing of emerging companies, as well as advising them on the protection, licensing and transfer of their technologies. Now we have a complete IP practice with the capability to assist businesses in obtaining patents and trademarks, and to pursue related litigation."

In addition to expanding the firm's capabilities, Dingman and Haeckl will help Mirick O'Connell build its growing business with high-tech companies in the MetroWest area, Lougee said. According to Dingman, he has had a referral relationship with Mirick O'Connell for several years, during which he has come to know many of the firm's attorneys.

"Intellectual property cases can be very demanding," said Dingman. "By joining Mirick O'Connell, I will have the opportunity to build a much more highly developed intellectual property practice than I could with a small firm, because the resources of the largest law firm in

Central Massachusetts will be available to the new practice group."

Before founding Nields, Lemack & Dingman, Dingman was a partner at Iandiorio & Dingman in Waltham. Before beginning his legal career, he was a senior process and manufacturing engineer in the Equipment Division of Raytheon Company in Waltham. He is a graduate of the University of Massachusetts, Amherst, and Suffolk University Law School. In addition to serving as past president of the WPI Venture Forum, Dingman is still active as a member of the Executive Committee as well as Chair of the Nominating and Development Committee.

Haeckl joined Nields, Lemack & Dingman in 1996. She is an adjunct professor at Anna Maria College in Paxton. She also served as an International Sales Manager for CeramOptec, GmbH in Enfield, Conn. and Bonn, Germany, and as an Industrial Sales Supervisor and Sales Engineer for Fiberguide Industries, Inc., in Stirling, N.J. She earned her bachelor's degree from Colgate University and her law degree from the Albany Law School of Union University. Haeckl is a regular attendee of the Venture Forum programs. **VF**

NTB
Associates

Use global resources

Continued from page 6

product? Look in stores with a variety of packaged goods such as hardware, toy or drug stores — you'll have plenty of ideas!

The specifications will also be used as part of the quality control inspection that should occur before the goods are shipped. (Quick Tip: Many people hire an independent quality control group to come into the factory and inspect the goods after the factory has finished its production and internal inspection. The cost of such a service usually adds less than 10 percent to the cost of the product, an inexpensive price to pay to assure the product was produced to your specifications.)

Duty, import documentation and legal/paperwork

Of course, you will need to know what duty rate will be assessed. This is readily available through the Harmonized Tariff Schedule of the United States (www.usitc.gov). This very large and detailed document provides the import duty category of every product that has been shipped into the United States. Even though you may find the proper category and are confident in understanding the assessed duty rate, it is highly recommended you provide a final prototype of sample to Customs for an opinion of definite ruling prior to importing the goods.

Any goods entering the United States must be accompanied by proper documents prepared by a customs brokerage firm. These experts are usually freight forwarders as well, and will assure your product is safely transported from the off-shore factory, to the shipping dock, across the water to the receiving dock, through Custom's clearance, and to your warehouse.

(Quick Tip: Contacting a custom's brokerage firm before you begin manufacturing can save time, money and grief. A knowledgeable custom's broker can assist with duty, quotas and packaging advice that will result in efficient container loading configurations, and estimates for shipping and all related charges.)

Order quantity

The minimum order quantity (MOQ) is set by the manufacturing plant based on raw materials, production run time, and anticipated production start-up costs and complications. Most manufacturers use a full 40-foot container load as a min-

imum order, because it is the most cost efficient way to ship product across the water. The quantity needed to fill a 40-foot container is determined by the dimensional size of your product.

If your order does not fill a full container, additional charges, such as consolidation (combining several customers' orders together to fill a container) will be added to your shipping fees.

Storage and distribution

There are distribution companies that specialize in receiving, storing and redistributing your product. The prices are generally determined by the quantity of goods, the amount of space you will need in the warehouse, the length of time the goods will be stored, and the amount of

Continued ▶

**Zero Stage Capital
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Driver's seat accounting

By Jean Sifleet

work necessary to distribute the goods. (Quick Tip: Many freight forwarders also offer storage and distribution services for their clients.)

Lead time for production

Most factories plan, and are fully booked, at least two to three months in advance. If they are not, you may want to reconsider working with them. Be certain to add shipping time to your schedule. The total time from the date the purchase order is issued until the product arrives in your warehouse could be four months, or longer, if your product requires tooling.

Overseas pricing

Every product is priced individually, and the pricing process (materials plus labor and overhead) is no different than it would be with a domestic manufacturer. If your product requires a lot of hand labor to produce (sewing, hand painting, assembly), however, you will find that the cost is substantially less overseas. As well, services (such as custom tooling) are generally priced more reasonably overseas.

Help during the process

Managing all of the aspects of manufacturing and importing can be overwhelming. Seeking expert advice from consultants (such as established importers, manufacturing management firms and international banks) who have built long-term partnerships with overseas companies will minimize the risk and expedite the production process. Finally, study this area as you would any other new venture, remembering that in most cases, the questions asked are more important than the answers given.

Reprinted with permission from the May 2000 issue of *Women's Business: The Professional and Business Woman's Journal*.

Darleen Flaig is the founder and president of Product Solutions International, Inc., Mansfield, a global product development and contract manufacturing firm that helps clients reduce the risk involved with new product development and global manufacturing of consumer products. She can be reached at Products Solutions International, Inc., 7 Fredric Lane, Mansfield, MA 02048, 508-261-9153 or email her at psii@ici.net. VF

Is accounting your weak spot? Read on — you don't need a CPA or MBA to use accounting information to drive your business.

Many entrepreneurs see accounting as 'rear view mirror' information, showing them what happened last year and how much they owe in taxes. To move your business ahead, qualify for financing, and enhance profits, you need to learn to use accounting information to make smart business decisions.

So, add to your business toolkit:

Cash Flow Statement; Income Statement (P&L); Balance Sheet

Cash Flow v. Profit

There's an old adage that 'CASH IS KING', but 'CASH FLOW' is not 'PROFIT.'

CASH FLOW — tracking 'cash in' and 'cash out' sounds simple; we do it in our personal checkbooks. But in business, it's easy to run out of cash because of an unexpected shortfall in revenue. Survival depends on cash flow. Running out of cash is the most common reason that businesses fail.

PROFIT — the difference between revenue and expenses. To get an accurate picture of profit, it's important to 'match' expenses with the revenue generated by the expenditures. A positive cash flow does not mean that your business is profitable. For example, if your business accepts up-front payments and doesn't record the related expenses for product support, your business may be generating cash but really not be profitable.

On the other hand, it is possible to be profitable and have a negative cash flow. For example, if it takes your business a long time to collect for products and services, you may be profitable but cash poor.

Cash Flow Statement

The Cash Flow Statement is a projection of revenue and expense, month by month, and helps you 'see' that the company will have the cash to pay the bills on time. Projections should be your best estimate based on past experience and current trends as to what revenues and expenses are likely to be. To be an effective tool, the cash

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WPI Venture Forum Radio Show

Every Saturday from 5 to 7 p.m., Bob Hokanson presents "two-way talks for entrepreneurs and wannabees" on WTAG (AM580). This radio show, sponsored by the WPI Venture Forum, provides information and insight into a variety of business topics.

November's schedule includes the following guests:

November 4 — Mitch Sanders, president and CEO, Expressive Constructs, Inc. and Mark Worthington, Attorney-at-Law, will address tax-planning issues for business owners.

November 11 — Anna Sabasteanski, global practice director for E-Commerce at Tanning Technology, focuses on international business practices.

November 18 — Dick Parkinson of the Manufacturing Assistance Center and local educators look at how well the current workforce is educated.

Please note that sports events or late-breaking news stories may occasionally preempt the regularly scheduled program.

If you miss the live broadcast, visit www.wtag.com to hear a "live" webcast of the program.

Driver's seat accounting

Continued from page 9

flow projections must be realistic. I recommend being conservative (e.g., understating revenue estimates) so that there's a cash cushion.

It's essential to keep track of actual cash flows through this checkbook-like review of cash receipts and cash disbursements. An evaluation should be done at least monthly and steps should be taken to accelerate the receipt of cash and control expenses.

Income statement (P&L)

The Income Statement is like a report card or scorecard. Unlike golf, higher scores are better.

The Income Statement, also called the Profit & Loss (P&L), is a summary of revenue and expenses over a period of time, and helps you see a consolidated picture of all the expenses incurred in running your business relative to the revenue produced. It's important to keep a careful eye on trends in revenue, and expenses as a percent of revenue.

EMPLOYEE BENEFITS FOR THE START UP COMPANY

Gross margin is a useful tool to help you understand the profitability of your business, and particular parts of your business. For example, 'gross margin' is product cost as a percentage of revenue. If you pay \$50 for a product and sell it for \$100, your gross margin is 50 percent. Generally, gross margin runs 40-60 percent of revenue.

If your gross margin is lower, you'll want to consider some options:

- Increase your price?
- Find a lower cost supplier?
- Discontinue the product?
- Change the packaging to enhance perceived value?

Operating expenses broken out as a percent of revenue also help you understand if your expenses are consistent with industry guidelines, or are excessive, relative to revenue. For example, as a rule of thumb, rent should be about 10 percent of revenue. If your rent is a higher percentage of revenue, you'll want to consider some options such as:

- Subletting some space.
- Figuring out how to generate more revenue per square foot of your space.

Profit & Loss accounting information for different parts of your business may help you make informed decisions about pricing and whether to expand or drop certain products or services.

Balance sheet

The Balance Sheet is a snapshot of the assets, liabilities and capital investment of the business. You can use the balance sheet for several key ratios:

- Current Ratio (Current Assets/Current Liabilities)
 - Good = 2-1.
This rating indicates the liquidity of the business and tells you whether you can pay the current obligations of the business. It's considered good if current assets are two times greater than current liabilities.
- Accounts Receivable Turn (Accounts Receivable x 365 days/Net Sales)
 - Good = 30 days or less.
This indicator tells you the number of days to collect money owed.
- Inventory Turn (Inventory x 365 days/Cost of Goods Sold)
 - Good = low number.
This indicator tells you the number of days to sell Inventory.

In conclusion, with these tools you can take accounting information out of the 'rear view' and into the 'Driver's Seat' so that you can use the information as you drive your business.

Jean D. Sifleet, Business Attorney, CPA & three-time entrepreneur, www.smartfast.com. **VF**

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For more information, contact Glenn Goldstein at (617) 542-0733 or email him at ggoldstein@execustaff.net. Execustaff, Inc. is located at 31 St. James Avenue, Suite 955, Boston, MA 02116.

WPI Venture Forum

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Worcester Polytechnic Institute
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Worcester, MA 01609
www.wpiventureforum.org
(508) 831-5821

WPI Venture Forum Calendar of Events

November 21, 2000 – Going Global

December 19, 2000 – Networking and Perfecting Your Pitch

Directions to WPI Campus, Salisbury Labs; Kinnicutt Hall

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. There is parking in the large lot on the right behind Gordon Library or continue on 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-209 into Worcester, Take Exit 17, turn left at end of ramp, follow Route 9 west through Lincoln Square, straight onto Highland St. then right at light onto West St. Through first intersection of West and Institute Rd. Visitor parking is on the left after footbridge. Additional parking on Boynton St. behind Gordon Library.

