

## Differentiation as a Path to Higher Profit

A business earns profit to the extent that it delivers value to customers. Value is delivered to customers in one of two primary ways:

- 1) Lower customer cost
- 2) Raise buyer performance, or benefits

If your product or service does not have uniqueness that makes it more desirable than what your competitors offer, then you have what we refer to as a “me-too” product. With a me-too product, the only way to attract or retain customers is price. The vendor that offers the lowest price wins the business. If you attempt to increase your profit by raising prices, your customers will go elsewhere.

This environment, where competition is based on price, is miserable for all industry vendors/competitors that offer undifferentiated, me-too products. The only one that wins is the low cost provider. The low cost provider is the firm that incurs the lowest cost in the delivery of its products and services. Such a competitor gains financially on its competitors each day, whether it uses its position to price low and gain market share, or charge prevailing market rates and book higher profits.

Unfortunately, many small and mid-size firms have difficulty gaining a meaningful and sustainable cost advantage over their larger competitors. This is because they lack the natural economies that scale (volume) affords the larger firm. As such, the more viable approach to higher revenue and profit often is differentiation.

The word “differentiation” contains the root word “different,” an adjective defined by Encarta World English Dictionary as:

dif-fer-ent

- 1) Unlike something or somebody else;
- 2) Separate or distinct from another or others;
- 3) Contrary to norms or expectations.

If you choose to pursue differentiation as a path to higher profit and revenue growth, your task will be to find ways to increase the value, or perceived value, that your customers derive from your products or services. More specifically, you must find differentiation criteria that will command prices in excess of any added cost that you might incur in making your product or service unique, and uniquely desirable.

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**“Many small and mid-size firms have difficulty gaining a sustainable cost advantage over their larger competitors. This is because they lack the natural economies that scale (volume) affords the larger firm. As such, the more viable approach to higher revenue and profit often is differentiation.”**

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# From The Editor



David L. Perkins, Jr.

Dear Subscriber:

It is already March 2003. Are you on pace to make vital and powerful improvements to your business this year? Are you taking time each day to grow your personal knowledge base? Regardless, it is time for action.

Like you, we at *The Business Owner* refuse to timidly await what the future brings. Instead, each day we work to create the future as we want it to be. With this issue we begin carving-out a little space to cover the important topics of sales, marketing and psychology. We are excited that Jeffrey Gitomer has agreed to write a column on topics related to marketing, sales, customer service and motivation. He is a nationally recognized author, speaker and coach. I personally think he is one of the very best. We also begin offering lessons from role models. In this issue, our featured role model is Lance Armstrong, whose personal story begs us to ask ourselves what it will take for US to get focused.

Be assured that each issue will continue to cover vital information and how-to advice in the areas of finance, accounting, expense reduction, tax reduction, business strategy, business valuation and risk management.

David L. Perkins, Jr.  
Publisher and Editor

PS. Tell us how you have put TBO information to work. You may win a free one-year subscription, or other publications of your choice!

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## STRATEGY/PROFIT MAXIMIZATION

*Continued from cover*

### How to Create Customer Value

A firm creates value for a customer by: 1) lowering the customer's cost, and 2) raising buyer performance. Prior articles in *The Business Owner* have discussed the concept of competitive advantage. Developing sources of differentiation for one's product or service is a way to develop competitive advantage. If the criterion on which your product is different is of value to customers, as described above, then (all things being equal) customers will want your product above the offerings of your competitors. You will have a competitive advantage over your competitors.

How do you create such an advantage? If you sell to industrial, commercial or institutional buyers, you do so by helping your customers create their own competitive advantage over their competitors. You do this by providing them with goods that allow them to lower cost or raise the performance (through differentiation) of their products or services. If you sell directly to consumers, your goal is to offer higher levels of the things that your particular consumers value, such as lower overall cost, ease of use, less time, prestige, lower stress, etc.

### Lowering Customer Costs

If your company sells to other businesses or organizations, anything that can be done to lower your customer's total costs represents a potential basis for differentiation. You will find many ways to lower customer costs if you develop a sophisticated understanding of how they use your products and services, and the various ways that your products and services ... and the way that you deliver them ... impacts your customer's costs. Furthermore, it is important to understand how your customer's products or services are used by THEIR customers.

It is important to consider all of the ways in which your product, or service, or the ways that you deliver your product or service, affects your customer's costs, such as:

- Delivery, installation or financing cost.
- Rate of use of inputs (such as raw materials).
- Labor, fuel, maintenance or facilities costs.
- Failure rates, rework costs and services costs.

### Raising Customer Performance

You can add value to your customers by helping them raise their own performance. To find ways, develop a deep understanding of what is desirable performance from your customer's perspective. If you sell to other businesses or organizations, you will want to determine what kinds of things differentiate your customer from their competitors. The criteria could be economic, such as cost; or non-economic, such as status, image or prestige. If you sell to individuals, raising customer performance will take the form of better satisfying customer needs.

*Continued on page 14*

# Speech Recognition Software

Speech recognition software will someday change the way we live and work and the way we produce and deliver goods and services. The day has been a long time in coming, but it may soon be here.

Already you have encountered speech recognition systems when attempting to make airline reservations or credit card account inquiries. Though these experiences may be, at times, less than fully satisfying, the technology is rapidly improving and there is great incentive for companies to make this technology work. The labor cost saving can be substantial and the service benefit compelling.

A recent article in *Forbes* magazine reported that "Since 1985, the vocabulary recognized by mainstream speech software has grown a hundredfold to 100,000 words, while the average price has decreased from \$5,000 to \$50." The same article cited Giga Information Group as predicting that speech recognition software is expected to match the speed and accuracy of human dictation by 2013, a mere 10 years from today!

**As every business owner should always be on the look out for new ways to reduce cost, increase productivity and improve customer service, every business owner should watch for how and when to utilize voice recognition-enabled solutions.**

Speech recognition technology is already sweeping through the voice mail systems industry. Now available at reasonable prices are systems that allow the caller to reach the intended party or mailbox by simply speaking the name of the person that they want to reach. Many of these systems can also automatically and immediately email the recipient a text version of the audio message left.

Speech enabled dialers are also penetrating the contact manager database market. When you speak the name of the person you want to call, your computer will automatically look up and dial the number.

Just last week I noticed that the new Honda Accord offers an on-board navigation device that provides directions when the driver speaks a desired location. Do you think Honda might sell more cars with this unique offering? I certainly would think so.

As every business owner should always be on the look out for new ways to reduce cost, increase productivity and improve customer service, every business owner should watch for how and when to utilize voice recognition-enabled solutions. As with any new technology, the early-adopters often enjoy the greatest advantages.

*Note:* This article is the first of a new, recurring column that we have titled "Future Vision." It will cover ideas, products, developments and trends that have the potential to impact our businesses and provide a means for gaining improved efficiency, profitability or entrepreneurial opportunity. □

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**Since 1985, the vocabulary recognized by mainstream speech software has grown a hundredfold to 100,000 words, while the average price has decreased from \$5,000 to \$50.**

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## Q&A

**Q: Can you explain what the heck GAAP accounting is? I hear the term used all the time, particularly in relation to all the corporate scandals of late, but nobody can really explain so that I understand.**

**A:** GAAP is the acronym for Generally Accepted Accounting Principles.

GAAP accounting is accounting that conforms to the "principles" or rules for how and when organizations should record financial transactions, what information should be presented in financial statements, and how it should be presented.

Who makes up these rules or principles? Well, the primary rule-making body today is the Financial Accounting Standards Board (FASB). The American Institute of Certified Public Accountants (AICPA) also issues what they refer to as bulletins, and there have been a few other organizations in the past that have issued principles, such as the Accounting Principles Board (APB). The collective body of rules, called principles, makes up the undisputed general accepted accounting principles (GAAP).

The object of each rule-making body is and has always been to establish bookkeeping practices that will lead to uniformity, clarity and accuracy. These elements are greatly needed so those that read, interpret and rely on the information in financial statements, such as lenders, insurers and investors, can easily and accurately understand the true performance of businesses.

Finally, GAAP concerns itself with financial accounting, or the preparation of financial reports for use by persons outside a firm. This should not be confused with managerial accounting, which is the preparation of financial reports or information for use within an organization. Managerial accounting concerns itself with tracking, organizing and presenting information that might assist company management in their efforts to manage the business. □

# Patents, Copyrights, Trademarks and Trade Names

## **Intellectual property laws provide protection and financial incentive for persons that invent, create, produce and sell goods and services.**

invent, create, produce and sell goods and services. Without protection, inventors would suffer great risk that their best new inventions and ideas, and the profits that they could generate, would be quickly pirated. The result would be lower levels of research and development and fewer new inventions, ideas and products. Intellectual property laws also protect consumers from confusion, deception and harm.

**Patents:** A patent is a grant by the federal government of a monopoly right for an inventor to make, use or sell an invention to the absolute exclusion of others for the period of the patent, currently 17 years from the date of approval or 20 years from the date of filing, whichever is longer. Once the original patent term expires, it may not be renewed, and the invention enters the "public domain" and anyone may use it.

## **A patent is a grant by the federal government of a monopoly right to make, use or sell an invention, such as a new or useful machine, process... or improvement thereof.**

patentable, it must be novel, have utility and not be obvious. Naturally occurring substances or "discoveries" are not patentable as the invention must be made or modified by humans.

**Copyrights:** A copyright is a form of protection provided by federal law that protects an original expression of an idea. It extends to authors of original works such as literary works, musical works, dramatic works, pictures, graphic and

Patents, copyrights, trademarks and trade names are the basic components of "intellectual property." Intellectual property laws provide protection and financial incentive for persons that

invent, create, produce and sell goods and services. Without protection, inventors would suffer great risk that their best new inventions and ideas, and the profits that they could generate, would be quickly pirated. The result would be lower levels of research and development and fewer new inventions, ideas and products. Intellectual property laws also protect consumers from confusion, deception and harm.

The Patent Act specifies the types of inventions that may be patented: any new and useful process, machine, manufacture or composition of matter or any new and useful improvement thereof. To be

patentable, it must be novel, have utility and not be obvious. Naturally occurring substances or "discoveries" are not patentable as the invention must be made or modified by humans.

**Copyrights:** A copyright is a form of protection provided by federal law that protects an original expression of an idea. It extends to authors of original works such as literary works, musical works, dramatic works, pictures, graphic and

sculptural works, motion pictures and sound recordings. Applications for copyright are filed with the Registrar of Copyrights, Copyright Office, Library of Congress.

Registration is not required for protection as copyright law protection begins as soon as the work is created. Registration is advisable, however, as it expands the remedies for infringement. Regardless of whether a federal registration is obtained, it is wise (though not required) to place a notice of copyright on all publicly distributed copies to give reasonable notice of the claim of copyright. A copyright notice typically consists of an encircled C, the author's name and the year the work was created (e.g. © *The Business Owner*, 2003).

## **A copyright protects the authors of an original expression... such as writings, art or music.**

perform or display a work. The owner of the copyright may retain the rights, sell or license them to others. For example, an artist who sells a painting might give up the right to display that work, but none of his other rights. The purchaser of the painting does not automatically buy the remaining bundle of rights when he or she buys it. Interestingly, what is known as the "fair use" doctrine provides to every person the right to use any work in ways that facilitate criticism, comment, news reporting, teaching, scholarship or research.

The copyright law has been revised several times, resulting in different lifespans of a work depending on when it was created and which law applies to it. Recently, the Supreme Court upheld the extension of copyright terms to the life of the creator plus seventy years, which means that many works from as far back as 1928 are still protected by copyright.

**Trademarks:** A trademark is any word, symbol or device (even colors or smells) that identifies and distinguishes the source of a product or service. There are four types of marks:

## **Trademark is anything that identifies or distinguishes the source of a product or service.**

trademarks (used to identify goods, like cookies or clothing), service marks (used to identify services like an insurance agency or car repair center), certification marks (indicating compliance with certain standards, like the *Good Housekeeping* seal of approval) and collective marks, which indicate membership in an organization, like The Boy Scouts of America. The federal government protects organizations and consumers by making it illegal for a person or organization to "palm off" or "pass off" goods from one source as goods from another, or "cash in" on the good will, good name or reputation of another.

To be federally protected, a mark must be distinctive so that it identifies the origin of the goods or services. Marks that are fanciful or arbitrary satisfy the distinctiveness requirement, whereas generic or descriptive designations do not. To obtain federal protection, the mark must be registered with the Patent and Trademark Office. Registration serves to notify to all that the registrant has exclusive rights to use the mark, and permits the registrant to use federal courts to enforce the mark.

## **A trade name identifies a business and assets, products or services owned by that business.**

**Trade Names:** A trade name is any name used to identify a business and its assets. The difference between a trademark and trade name is that a trademark distinguishes a particular product as coming from a particular source, even if that source is unknown. For example, a consumer may be able to easily distinguish OREO cookies from FIG NEWTONS without knowing what company makes either one of those cookies. A trade name, on the other hand, is the name a business uses to identify itself, like the MCDONALD'S CORPORATION.

Sometimes a company will use its trade name as a trademark on products or services (COCA-COLA or McDonald's are good examples), but that's not always the case. Although a trade name may not be federally registered, trade names are protected and any person that attempts to "palm off" his goods as the goods of another is liable for damages. □

*Ms. Rachel Blue of Doerner, Saunders, Daniel & Anderson contributed materially to this article. She may be reached at rblue@dsda.com.*

# Funeral Expenses

Ever try to reduce your personal living expenses? It's tough. The bills just keep rolling in. Dying won't help much either. According to the National Funeral Directors Association, the average cost of a traditional funeral service including professional services, casket and vault is now \$5,800. The Cremation Association of North America (CANA) pegs the average cremation service today at \$2,000. And, like just about everything, we can expect the costs to steadily rise.

Although having the cash to cover our own burial expenses probably never makes anyone's list of life goals (It did not make Lou Holt's now famous list of 108 life goals!), it is the least we can do! Who would want the primary topic of their going-out party to be who is picking up the tab?

As the owner of a private business, the more likely scenario may be that you could be the one paying the burial expenses for a few loved ones. If information is power, this article will empower you with the information you need to plan for future burial expenses. With the average cost data presented above, you can plan. However, as with just about anything that could or will cause a future financial obligation with uncertain timing, there are insurance products that can smooth the risk. Therefore, if there is any chance that you could have difficulty funding future burial expense obligations, you should consider burial insurance.

Two prominent underwriters of funeral insurance are Forethought Insurance Co. and Homesteaders Life Insurance Co., but there are many. Most funeral homes work with at least one major insurance

company that offers funeral insurance. As with any life insurance product that is funded with after-tax dollars, the death benefit is tax-free. Look for policies that have defined pay-up periods of five, 10 or 20 years. Once all the premiums are paid for the determined period, the death benefit should remain until death. If the beneficiary is at an advanced age, the premiums will be higher. Premium amounts can be reduced by accepting a lower payout in the event that death occurs before a designated future date.

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**The average cost of a traditional funeral service including professional services, casket and vault is now \$5,800.**

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For persons that have cash to contribute today and want to self-fund burial expense obligations, a special "pre-paid funeral trust" should be considered. Many funeral establishments are licensed by their state to offer, administer and act as trustee for such accounts. Most states require that the provider be bonded and only invest trust funds in government-backed investments. In exchange for receiving the contributed funds and accumulated interest upon the death of the designated party, the funeral service provider agrees to provide the contracted items, such as service, casket and vault, when needed.

Most funeral providers and state insurance commissions can supply complete pricing, regulatory and rating information. Check with the requirements in your state and, before you commit, ask the provider for proof of current licensure and evidence of good standing with state regulators. Further information on funeral and cemetery planning can be found at [www.nfda.org](http://www.nfda.org) and [www.icfa.org](http://www.icfa.org).

*Charles H. Ninde, Jr., president of Ninde Funeral Directors of Tulsa, Oklahoma, contributed materially to this article. □*

## PSYCHOLOGY

# Learning from Others: Lance Armstrong

To this day, Lance Armstrong insists cancer was the best thing that has ever happened to him. By beating the disease that spread from his testicles to his lungs and brain, Armstrong gained the courage and will to conquer the Tour de France, considered one of the most grueling events in all of sports.

Armstrong went from having a 50 percent chance to live in 1996 to four straight Tour championships, earning worldwide praise and admiration from sports fans and other cancer survivors.

Armstrong's comeback has given him the platform to lead public-awareness campaigns against cancer. He started the Lance Armstrong Foundation, which funds cancer research, and fills his rare free time with hospital visits and fund-raising speeches. His message is consistent: Cancer made him the person he is today.

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**When I came back, I said if I ever get a chance to do this, I'm going to give it everything. That's why I say all the time that the illness is the best thing that ever happened to me. I would never have won one Tour de France if I hadn't had it. No doubt.**

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"When I came back, I said if I ever get a chance to do this, I'm going to give it everything. I'm going to train correctly, eat right. I'm not going to mess up," he said. "That's why I say all the time that the illness is the best thing that ever happened to me. I would never have won one Tour de France if I hadn't had it. No doubt." "The illness taught me to focus on what's going on now," he said. Away from his bike and his cancer-related work, Armstrong is a proud family man. He met wife Kristin while taking chemotherapy. His son, Luke, was born in 1999, when Armstrong won his first Tour. Twin girls Isabelle and Grace were born last year. It's his family, and the realization that he almost never had one, that drives Armstrong. "Seeing your kids tomorrow isn't guaranteed," Armstrong said. "Look at this life like it's a gift. That's the way I try to view my life, my family — as a gift." □

*Austin, Texas. Associated Press.*

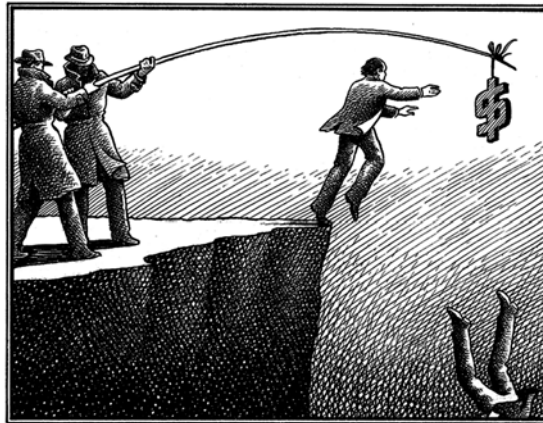
# ***Scam Alert:* Health and Workman's Compensation Insurance**

Unscrupulous insurance vendors apparently smell opportunity in today's hard insurance market. According to many industry sources, fraudulent insurance offerings are flooding the market and preying on the desperation of business owners who face sharp cost increases.

"It's boom time for insurance scams that collect premiums; pay few, if any, claims, then skip town" noted a *Business Week* writer in August 2002. "To camouflage their scam, the chameleon-like operators all use similar tricks. Slick brochures, flyers, local media campaigns, and they pitch their services to real professional groups or sell membership in phony ones as a way to get insurance. The names usually mimic those of well-known companies or organizations."

In December 2002, Insurance Commissioner Carroll Fisher warned consumers to keep in mind the old maxim, "If it seems too good to be true, it probably is," and offered these tips to help agents, consumers and employers protect themselves from fraud.

- Be skeptical if the premiums seem low compared to other health insurance plans, or if the plan offers coverage without concern for pre-existing conditions.
- Beware of sales material and pitches that avoid the word "insurance" or the use of certain insurance terminology.



For instance, it pays "consultant fees" instead of commissions, or refers to premiums as "contributions."

- Look for claims that a product is "fully funded," "fully insured," or "reinsured," but the name of the carrier insuring or underwriting the products is not revealed.

In addition, before you buy, check with the insurance commissioner in your state to insure that both the agent/broker and underwriter are licensed in your state, and ask for any record of complaints. Find your state commissioner at [www.naic.org](http://www.naic.org).

After paying your first premium, contact the underwriter and confirm that your broker or agent has enrolled you and didn't just pocket the money. □

**"Far better it is to dare mighty things, even though checkered by failure, than to dwell in the perpetual twilight that knows not victory or defeat."**

*Theodore Roosevelt*

**"An investment in knowledge pays the best interest."**

*(Benjamin Franklin)*

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# Do You Know How to Act?

## Civil Rights Act • Family and Medical Leave Act • Fair Labor Standards Act

The legal challenges an employer faces upon hiring an employee begin with the interview process and continue long after an employee has been terminated from employment. From pre-employment inquiries to post-employment references, employers are confronted with a panoply of laws that regulate and restrict their ability to manage personnel. This article will address what some refer to as the "Big Three," including: Civil Rights Act, the Family and Medical Leave Act, and the Fair Labor Standards Act.

### **Title VII of the Civil Rights Act**

The most common form of litigation employers face is employment discrimination. Title VII of the Civil Rights Act of 1964 prohibits discrimination in employment because of race, color, religion, sex or national origin. Title VII applies to all private sector employers with 15 or more employees. Smaller employers may be subject to state or local laws. For example, New York State's Human Rights Law applies to employers of four or more persons.

Until 1991, Title VII, although a significant source of litigation, was

**Title VII applies to all private sector employers with 15 or more employees. Smaller employers may be subject to state or local laws.**

less of a concern to employers from an exposure point of view because it permitted neither (1) the right to a jury trial, nor (2) the recovery of punitive damages. However, in 1991, Congress amended Title VII to provide both remedies.

Title VII, though most commonly used in the employment termination context, prohibits discrimination in

other employment contexts as well, such as hiring (e.g., the interview and selection process), promotion, work environment and retaliation. In the interview process, employers are precluded from asking applicants questions which not only directly request but which could indirectly disclose information about an employee's age, national origin or other protected classification.

The "hostile work environment" context has become the focus of cases involving sexual harassment suits. Such litigation has probably been the leading factor in prompting employers to establish policies against, and procedures for employees to complain about, discrimination. In several recent decisions, the U.S. Supreme Court held that employers might often avoid liability in hostile work environment cases by maintaining policies and complaint procedures and responding promptly to employee complaints.

Thus, it is essential for an employer to develop, implement and enforce a non-discrimination policy and complaint procedure. This type of procedure

will not provide a defense in litigation involving "quid pro quo" sexual harassment, that is, an act of sexual harassment committed by a supervisory or managerial employee against a subordinate combined with a threat of adverse job action or promise of job benefit. However, such a policy and procedure will nonetheless encourage employees to initially utilize internal complaint procedures rather than turning to external judicial or administrative forums in the first instance.

**It is essential for an employer to develop, implement and enforce a non-discrimination policy and complaint procedure.**

### **Family and Medical Leave Act (FMLA)**

Similarly, maintenance of a policy and procedure is essential for companies with 50 or more employees to ensure compliance with the Family and Medical Leave Act (the FMLA). FMLA provides that eligible employees are entitled to 12 weeks of unpaid leave per year upon the birth or adoption of a child, or the "serious health condition" of an employee or immediate family member. Eligible employees are those who have worked for an employer for at least 12 months, have worked over 1,250 hours in the prior one year period and work at a location where there are at least 50 employees employed within 75 miles.

Because the FMLA permits leave in intervals of one hour or more, its application and use has become an administrative nightmare for employers, particularly small-business owners, who must accommodate leaves of varying length, often with little or no notice. Moreover, eligible employees, other than "key employees," are guaranteed return to their former position upon completion of the leave.

The FMLA has particularly affected companies with fixed attendance policies, i.e., companies that terminate employment after 15 absences in a calendar year. Because employers often do not initiate the FMLA process for absences of one or two days (nor inquire as to whether an absence is for an FMLA-qualifying reason), care must be taken, in the event a termination is triggered by an employee's absenteeism, that FMLA-qualifying days of absence are not counted. Although employees must notify the employer that an absence is due to an illness of

**FMLA suits can successfully be blunted by implementing and following an FMLA policy and procedure, a part of which requires employees to provide medical certification as to their absences.**

**Similarly, maintenance of a policy and procedure is essential for companies with 50 or more employees to ensure compliance with the Family and Medical Leave Act (the FMLA).**

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the employee or an immediate family member in order for the employer's obligation under FMLA to be triggered, the employee need not use the term "FMLA" in his or her notification. There has been a marked increase in the number of employment terminations challenged under the FMLA in 2002. Such suits can successfully be blunted by implementing and following an FMLA policy and procedure, a part of which requires employees to provide medical certification as to their absences.

**Fair Labor Standards Act (FLSA)**

A third area of increased litigation activity has been overtime wage claims under the Fair Labor Standards Act (FLSA). The FLSA does not have a minimum employee requirement but applies to all employers engaged in commerce. Under the FLSA, employees who work in excess of 40 hours in a week must be paid time and one half their regular hourly rate for all hours worked in excess of 40.

The FLSA exempts the overtime requirement from bona fide executive, administrative and professional employees, as well as outside salespersons. A common pitfall in classifying employees as exempt has been a misunderstanding of the significance of the "salary" basis of payment. Although one of the requirements for exempt status is that an employee receives a salary of at least \$250 per week, regardless of the number of hours worked, payment of a salary is not sufficient to satisfy the exception. Thus, employers have often classified employees with titles such as assistant manager, administrative assistant or sales manager as exempt, based on receipt of a "salary," when these employees are not exempt and are entitled to overtime. This potential problem, which often arises in a suit filed after an employee has been terminated from employment, and/or may become the subject to an investigation by the U.S. Department of

Labor or a state labor agency, can be avoided by conducting an internal audit of all job titles deemed exempt to ensure that they satisfy the statutory exemption.

Another more recent source of employee claims under the FLSA has involved a failure to pay minimum wage in situations where small companies, particularly start-ups in the technology area, have promised employees stock options and bonuses in exchange for an employee's agreement to work without pay during the start-up period. Because payment of the minimum wage during each payroll period (usually a week) cannot be waived, such

arrangements are unlawful and employees are entitled to payment for the weeks in which no wages were paid, even if the payment of wages was made later and exceeded the minimum wage payment for all previous periods. Unfortunately, the FLSA provides for little creativity in methods of payment and has not been modified to meet current economic conditions and changes.

In conclusion, although current federal employment laws do pose a minefield for the unwary employer, consulting with a human-resources professional or attorney when designing policies and procedures, combined with an internal audit of current practices, can often prevent exposure to litigation under the Civil Rights Act, FMLA and FLSA. □

*This article was substantially written by Jerry Goldberg, a labor and employment attorney in the New York office of Greenberg Traurig. For additional information, call (212) 801-9200, e-mail goldbergj@gtlaw.com or visit www.gtlaw.com.*

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**FAMILY *fund*ING**

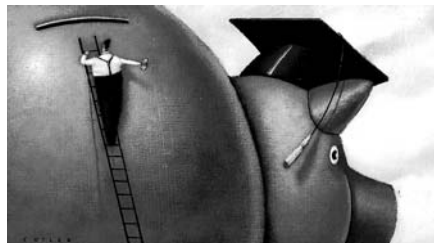
**Update on Prepaid Tuition Plans**

The January-February 2003 issue of *The Business Owner* provided extensive information on government incentives available for college savings. Included was information on qualified tuition programs (QTPs), commonly referred to as Section 529 plans. Many of the state sponsored plans offer an option to pre-pay for tuition at state institutions of higher learning. The attractiveness of these plans is that the risk of inflation and the uncertainty of future tuition costs can be eliminated by buying vouchers or credits today.

Before taking advantage of such a prepaid tuition program, be sure to do thorough due-diligence. The declining stock market and state budget crunches have brought to

light the fact that some plans offer guarantees that are conditioned on the state's ability to obtain a return on the invested prepaid funds that matches tuition increases. With investment returns in the tank and many states passing sharp tuition increases, some prepaid programs are being forced to make tough choices. Most are raising the cost of their pre-pay vouchers, making those that already invested all the better. Some programs may "change the deal" on those that already invested, as *Forbes* recently reported Colorado as doing.

The bottom line? If you are considering investing in a pre-paid tuition plan, be sure to read the fine print. □



# ***Business Valuation Basics:*** **Going Concern and Liquidation Value**

Value is the utility, worth or desirability of an asset, right or privilege. All things of value can be generically referred to as assets. In our society, assets are bought and sold with money (no offense to the barter folks). Therefore, value is expressed in dollars. The value that an asset has to any person or entity is simply the amount he or she is willing to pay to obtain it. A business is simply a group of assets.

Business valuation is the process of assigning a dollar value to a business by estimating what someone would pay to obtain the ownership rights. For the most part, an asset or group of assets has value only if it:

- 1) Can be sold and turned into cash, or
- 2) Generates cash.

The first is called liquidation value and the latter is called going concern value.

**Going Concern Value.** A business has value as a going concern only to the extent that it generates cash. If a business is to be operated as a going concern (i.e. its assets won't be liquidated), then its value is a function of the amount of cash or profit it will generate over time.

**Liquidation Value.** The amount of net cash obtained by selling the assets of a business piecemeal (not as a going concern) is liquidation value. "Net cash" means the sale proceeds minus expenses incurred in carrying out the sale. For example, the value of a parcel of real estate would be the price for which the asset could be sold, less any expenses of the sale such as commission, legal and closing fees.

Many assets don't generate income, such as a home that is lived in by its owner, or baseball cards, automobiles, furniture, equipment, etc. Assets, like these that don't generate income, have no going concern value ... only liquidation value. The value of these assets is determined by the cash that could be generated from their liquidation.

**Liquidation Value vs. Going Concern Value.** It can be said that every business has two potential sources of values: liquidation

value and going concern value. We use the term "potential" because a business does not necessarily have value of both types. For example, a business that consistently loses money may not have value as a going concern. Theoretically, such a business may have a negative going concern value. This is meaningless, however, because the owner of such a business would quickly liquidate the assets to eliminate the economic erosion. The value received would be the liquidation value, or the sale price less sales expenses.

It is important to mention, however, that a business that is losing money **COULD** sell as a going concern (i.e. for more than its liquidation value). This would only occur if a buyer believed it could operate the business profitably as a going concern.

For the seller to obtain a price exceeding what could be obtained via liquidation, this buyer would have to be willing and able to pay more than the liquidation value. This would mean the buyer was willing and able to pay the seller for value the buyer brings to the business because of the buyer's skills, abilities, assets or competencies. Often, shrewd buyers will not do this unless they are worried that a competing buyer might purchase the business or group of assets for a price greater than liquidation value.

The concepts of going concern value and liquidation value can also lead to interesting predicaments. For example, consider a business that has assets that could be liquidated (i.e. "sold off" individually) for \$2 million but generates only \$100,000 per year in profits. What is the value of this business? If the assets of the business are to be sold-off, the value is clearly \$2 million. If the business will not be liquidated, then the value is simply the income stream it generates.

So, what is the value of a \$100,000 annual income stream? The answer depends on: 1) certainty with which the \$100,000 will be received in the future (risk), and 2) value today of dollars received in the future (time value of money). Both of these topics will be covered in the upcoming May/June issue of *The Business Owner*. □

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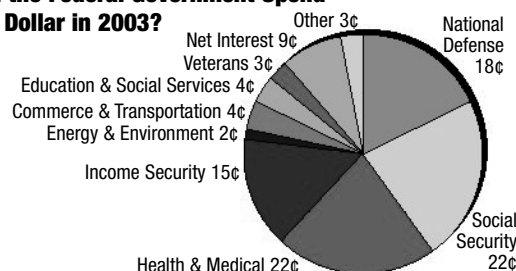
**For the most part, the value of an asset or group of assets is the greater of its liquidation value or going concern value.**

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## **Did You Know ?**

The top *one percent* of U.S. taxpayers (annual income over \$313,469) made *20.8 percent of the income* earned in 2000 and paid *37.4 percent of the total federal individual income taxes* collected that year. This fraction of the tax burden paid by the top one percent - well over a third of the total - is up from 25.1 percent ten years earlier in tax year 1990.

### **How Will the Federal Government Spend Your Tax Dollar in 2003?**



Note: Due to rounding, cents may not add to one dollar. Source: President's Budget, P/2003

# If You Would Do It Later — Why Wouldn't You Do It Now?

I met a guy on the plane who was an area director for a major shoe store chain. "Suppose I went into your store and the shoe I wanted was out of stock in my size — what would happen," I queried.

"Well, that shoe store has the capability of finding those shoes in our other stores — and then asks (tells) the customer to go to the other store to pick them up."

"Can't you just ship them to my home?" I wondered.

"No," he said matter of factly. "We're not set up to do it that way."

I turned the tables and asked the guy which he would rather have? "Delivered," he said without a second of hesitation. "I'd rather have them delivered."

"What about your customer — you think they'd want them delivered, too?" I challenged.

"Yes, I suppose they would," he said with that 'what's this guy going to say next' look.

"Who's your biggest competitor?" I asked.

"WalMart," he said.

"Suppose WalMart came out with a new service that would locate out of stock shoes for shoppers at other WalMart's and deliver them to the customers home the same day they were ordered — no hassle — complete return privileges at any WalMart store — think you might have to offer the same thing to be competitive?"

"You bet we would!" was his knee jerk reply.

WAKE UP CALL! HELLO — ANYONE HOME? If you would do it after your competition does it to "meet" them, why wouldn't you do it before they do it and "beat" them?

If you would do it reactively, why wouldn't you do it proactively?

Why not beat them (your competition) to the punch?

Why not make them react to you?

Why not have them be perceived as the follower?

Why not be the leader in service?

Why not set the standard and let others try to catch you?

I'm stumped. There isn't one company or person reading this column right now that doesn't have an opportunity to out-manuever and out-serve the competitor you hate the most. Wait for your arch rival to take the lead. Why?

You only have an opportunity to capture leadership once — after that, you play #2 — ask Avis. They've been "trying harder" for

25 years. Enterprise Rent-A-Car is a different story. They took the bold position to deliver the rental car to the customer. Their competition HATES it (and their customers love it). They niched the replacement car market, delivered it to the door of the customer, and are now number one in rental cars. Call Hertz and ask them who's number one.

Enterprise never wanted to be number two — and, using a proactive approach, beat Hertz at their own game just by delivering the car and mastering one segment of the market — and beat them so bad, that now Enterprise is entering the Airport market — and Avis is still "trying" to do it the same old way. Pity.



**Jeffrey  
Gitomer**

Most of these changes (innovations) are obvious. You see something new and say to yourself, "why didn't I think of that?" Three big reasons we fail to see the obvious:

1. Too caught up in the day-to-day "got to make more sales" trap of mediocrity. Failure to see the big picture.
2. Too caught up on making money instead of becoming "best" at what you do. The greed factor blocking the leadership and creativity factors.
3. Too wasteful of your personal time (news, dumb TV, ball games, bars) to focus and plan for true success. Upside-down success priorities.

PROACTIVE OPPORTUNITY KNOCKS: What new service or product offering could you make that would establish you as a leader in the field?

PROACTIVE CHALLENGE: What would you hate for your competition to beat you at?

PROACTIVE LEADERSHIP: What new service could you offer that your competition would HATE you for?

Leaders don't respond to trends — they set them. Are you in the field or do you lead the field? Your innovative proactive actions will determine your fate. And your field position. Be first.

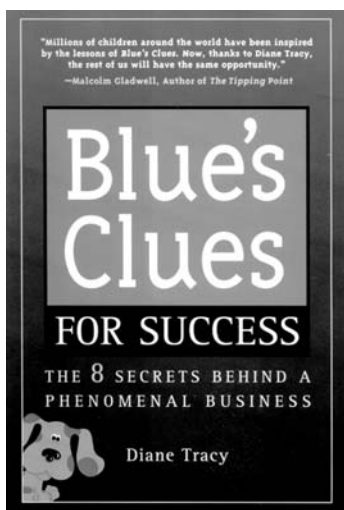
*If you would do it reactively, why wouldn't you do it proactively?* is a haunting question. Don't let it haunt you. ☐

*Jeffrey Gitomer is the author of The Sales Bible, and Customer Satisfaction is Worthless, Customer Loyalty is Priceless. President of Charlotte-based Buy Gitomer, he gives seminars, runs annual sales meetings, and conducts internet training programs on selling and customer service. He can be reached at 704/333-1112 or [salesman@gitomer.com](mailto:salesman@gitomer.com)*

# Follow Blue's Clues To Find Business Success

Do you feel that going to the office requires that you leave your personal values at the door and don the mantle of corporate toughness? Do you assume that work is work, fun is fun, and never the twain shall meet? In fact, do you believe that embracing "softer" qualities like compassion, joy, curiosity and playfulness would negatively affect profits?

If your answer is yes, you're not alone. Too many of us have allowed our "childlike" values to be programmed right out of us and as a result, too many companies are failing to live up to their full potential.



Now there's a new book out that makes a compelling case for the success potential of the values-driven corporation. *Blue's Clues For Success: The Eight Secrets Behind A Phenomenal Business* (Dearborn Trade Publishing, \$22.00), written by author, speaker and executive coach Diane Tracy, explores the extraordinary success of the Nickelodeon children's show that's become a highly-merchandized international phenomenon.

*Blue's Clues For Success* is attracting an audience of entrepreneurial-minded women and men who are looking for a values-driven practical guide for creating a successful business with an enjoyable environment. Its central message reflects the famous Blue's Clues line, "If you use your mind and take a step at a time, you can do anything you want to do."

"After just 10 minutes of flipping through *Blue's Clues For Success* in the airport bookstore, I knew I had stumbled on a business book like no other," offers cognitive psychologist, musician, and entrepreneur, Dr. Erika L.F. Sueker. "It was a real breath of fresh air. Instead of just another book that likens the marketplace to a combat zone or that advises women entrepreneurs to 'think like a man,' I finally found a business book that speaks to the heart of how to create and run a successful enterprise. After reading the book cover to cover I am convinced that not only can running a business be fun, but if my new business can emulate the Blue's Clues phenomenon even slightly, we will succeed."

In the book, Tracy lays out how the creators of Blue's Clues took their fundamental core values, their inherent love for children, and a basic premise that work should be enjoyable, and parlayed them into a business that has generated over \$3 billion in

merchandising within a few years, airs in more than 60 countries and has become a household name.

**Clue #1:** A clear and powerful MISSION provides the focus for mobilizing the energy of your people.

**Clue #2:** When you know your CUSTOMER, love your customer, and keep him or her the FOCUS of everything you do, you won't have to worry about the competition. You will be in a class of your own.

**Clue #3:** RESEARCH is the tool that keeps you connected to your customer and aligned with your mission. When you use research for the basis of your decision-making, you will be able to meet the needs of your customer with amazing precision.

**Clue #4:** When you are the master of your TECHNOLOGY and you use it creatively to accomplish your business objectives, it can empower you to do things for your customer that no one else has done.

**Clue #5:** Effective WORK PROCESSES are the key to quality, high performance and efficiency. When the people of the organization help to create processes that work, they are empowered to meet the objectives of the organization.

**Clue #6:** When you are crystal clear about who and what you want to be in the mind of your customer, and you manage every detail of your business so that customers see you as being in a class of your own, you will have BRANDED your product.

**Clue #7:** When the LEADERSHIP of your organization truly cares about people, when they consistently model the values and behaviors they want from others, when they treat people with respect and meet their work needs, the fulfillment of the mission and the accomplishment of your business objectives will be a natural by-product.

**Clue #8:** The CULTURE of your organization is the environment in which people live. If it is a healthy environment that the leaders plan for and manage carefully, the people will flourish and so will the business. □

**"Great work will not be made manifest by cowards. A man is relieved and gay when he has put his heart into his work and done his best; but what he has said or done otherwise shall give him no peace."**

*Ralph Waldo Emerson*

# Tax Deadlines For March & April 2003

## March 17

- C and S corporations must file 2002 calendar year tax return today or form 7004 for an automatic six-month extension. In either case, taxes for 2002 are due today. S corporations must also provide each shareholder with a K-1.
- C-corporations that wish to covert to the S-corporation form for 2003 must file form 2553 today and obtain signatures of all stockholders.

## April 15

- Individual tax returns and payments due today. File form 4868 for an automatic four-month extension.
- Individuals must make the first payment for 2003 estimated tax if income taxes are not being paid through withholding or if the withholding is not sufficient.
- Partnerships must file a 2002 calendar year return (form 1065) by today and provide each partner with a copy of schedule K-1. File Form 8736 for an automatic three-month extension.
- C corporations must deposit the first installment of 2003 estimated taxes today.
- IRA Contributions: Last day to make 2002 contributions.



“This is so cool! I’m flying this thing completely on my Palm pilot!”

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# Business Owner’s Toolbox

## **National Association of Insurance Commissioners**

[www.naic.org/splash.htm](http://www.naic.org/splash.htm)

The organization of insurance regulators from the 50 states, the District of Columbia and the four U.S. territories. A state regulator’s primary responsibility is to protect the interests of insurance consumers and the NAIC helps regulators fulfill that obligation.

## **International Cemetery and Funeral Association**

[www.icfa.org/consumer.html](http://www.icfa.org/consumer.html)

The consumer information on this website provides answers to questions about funeral and cemetery arrangements, cremation, organ donation, prearrangement and planning, grief, and other issues related to the end of life.

## **The Cheapest Hotels Rates, Guaranteed**

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

If you want great prices on hotels, especially on short notice, check out [www.hotwire.com](http://www.hotwire.com). This site offers incredibly cheap rates and provides current, independent quality ratings on each hotel. In fact, if within 48 hours of booking you find a lower price for your entire stay for an equivalent room type in the same hotel on the same dates, Hotwire will give you double the difference!

## **Obtain Shipping Information on a Package Without Looking It Up**

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

A new service from FedEx called ShipAlert®, will automatically send you or any designated person an email that alerts as to when a package was shipped, where it is going and on what date it should arrive. You no longer have to wonder if a package has shipped or look up delivery information. Have Fed-X email the information directly to you immediately when it is picked up. Then, if you have questions, the tracking number is right in your email inbox.

## **Addresses, Maps and Directions — Free, Instantly, to Anywhere**

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

If you know the address of the place you want to go, simply type in the address and a map will appear. Print it, insert it into a document or email it to someone. For directions, fill in the “to” and “from” and directions will be provided. Need to find an address? Click on Yellow Pages, type in the business name and the address will appear. For a map or directions, just click a button. Want to know where all the Starbucks are along your route? It will do that too, instantly!

*Differentiation as a Path to Superior Profit, continued from page 3*

**Customer’s Perception of Value**

Customers have a difficult time assessing, before they buy or use your product or service, the degree of value that your product or service will provide. In fact, the value that you provide may remain unknown or unappreciated even after a customer or customers have long used it. Similarly, customers often do not know what to look for in a product or service, or what features or benefits deliver value. For these reasons, you must educate them.

Education may take the form of mass marketing, direct advertising or consultative selling. This concept of misunderstood or poorly recognized value also gives rise to the fact that perception plays an important role in which vendor is selected by customers. Therefore, perceived value can be as important as real value, and this is where effective marketing and sales enters the picture. Advertising and marketing can be used to gain a competitive advantage, whether real or perceived, though real advantages may be more sustainable.

**Customer Purchase Criteria**

Customers select which products or services to purchase based on “use” criteria and “signaling” criteria. “Use” criteria include those that actually create value for the buyer such as lowering cost, improving quality, increasing turn rates or reducing delivery time. Signaling criteria are things that influence the customer’s perception of a firm’s ability to deliver on the “use” criteria. Effective signaling may help your firm be considered, and may even earn you the final selection among vendors that the customers perceive to be similar.

Common signaling criteria include:

- Reputation or image.
- Cumulative advertising.
- Appearance of the product.
- Appearance or size of the facilities.
- Time in business.
- Installed base.
- Customer list.
- Market share.
- Parent company identity.
- Visibility to top management of the customer’s organization.

**Identifying Customer Purchase Criteria**

Identifying purchase criteria begins by identifying the decision maker for the customer, and any persons

that might influence the decision maker. “Use” criteria should be determined first, because they measure the sources of buyer value and often determine signaling criteria. A thorough assessment and analysis is critical as the task of evaluating and determining the real decision makers and purchase criteria is rarely as simple as it seems. Lengthy discussions with various persons in the customer’s organization are a must, but one should not stop there. Customers rarely fully understand how and where you could help them reduce cost or improve the value they can provide to their customers. Extra effort, such as talking to your customer’s vendors and clients, is merited.

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**“Customers often do not know what to look for in a product or service, or what features or benefits deliver value. For these reasons, you must educate them.”**

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**Sustainable Differentiation**

To command superior profits over time, sources of differentiation need to be sustainable. When your competitors begin losing business to your organization, even when you are selling at higher prices, they will try to copy you. The purchase criteria of your customers may change, over time, as well. To create sustainability:

- Develop sources of uniqueness that competitors will have difficulty emulating, due to a lack of skill, information, technology or cost.
- Develop multiple sources of differentiation.

- Create switching costs in conjunction with differentiation efforts. (Switching costs will be discussed in the November/December 2003 issue of *The Business Owner*.)

**Steps in Diversification**

1. **Determine the real buyer.**
2. **Identify the buyer’s *value chain*\* and the firm’s impact on it.**
3. **Determine buyer purchase criteria.**
4. **Identify the cost of existing and potential sources of differentiation.**
5. **Choose the configuration of value activities that creates the most valuable differentiation for the buyer relative to cost of differentiating.**
6. **Test the chosen differentiation strategy for sustainability.**
7. **Reduce cost in areas that do not affect the chosen forms of differentiation.**

\* *Value chain to be discussed in the September/October 2003 issue.*

**Selecting Dimensions on Which to Differentiate**

Once you have identified the buyer or buyers within your customer’s organization, understand how your product or service becomes an input in your customer’s efforts to add value to their customers, and determine your customer’s purchase criteria, you are ready to identify your existing and potential sources of uniqueness.

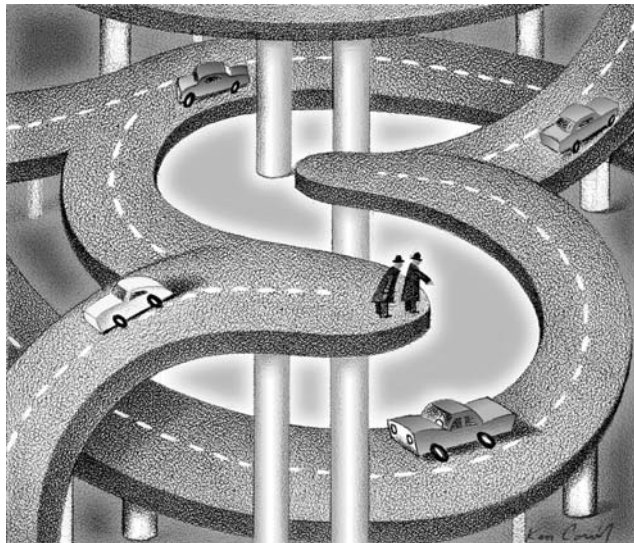
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Given that resources are limited, you'll have to determine which differentiation strategy initiatives to implement first. The logical choice is the low-hanging fruit. Ask yourself which initiatives would be the easiest to implement, cost the least, address the customer's most important buying criterion, and would be the hardest for your competitors to imitate. Rank the options and start with the highest.

Critical in this process is estimating both the cost that you will have to incur in establishing and sustaining each potential source of differentiation, and the price or volume premium that the same will command.

Differentiation only makes sense when it results in higher profits. If a differentiation strategy costs money, as most will, but does not bring in income that more than offsets the cost, the effort is futile.



competing successfully and earning higher profits will almost always incur higher costs than some of its competitors. For this reason, if you pursue a path of differentiation, it is extremely unlikely that you will be able to compete by offering the lowest price. The uniqueness of your products or services will have to be such that you will have no real competitors, at least for the customer group that is ideally suited to your product and its uniqueness, or that your customers will be willing to pay a premium to buy from you because the benefits they receive more than offset the higher prices. □

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

**Cost Reduction vs. Differentiation**

The competitiveness of our capitalistic, free-market society requires that every business constantly lower cost. Business owners are in constant pursuit of higher revenue and lower cost which yields higher profit. If you can find a source of differentiation that also lowers your own costs, it should be implemented today even if it does not add significant value to your clients.

Most differentiation strategies require additional effort and/or resources, however. For this reason, it is rare to find a company that is both the low cost provider AND a preferred vendor based on purchase criterion such as quality, reliability, delivery, services, etc. The business that pursues differentiation as a means for

*Part 1: How to Create and Sustain Superior Profits  
(Nov.– Dec. '02 issue)*

*Part 2: Industry Analysis: Your Path to Appropriate Profit Strategy  
(Jan.–Feb. '03 issue)*

*Part 3: Differentiation as a Path to Higher Profits  
(This issue of The Business Owner)*

*Part 4: Cost Drivers and Where to Look to Lower Cost*

*Part 5: Customer Perception and Signaling*

*Part 6: Buyer Value and The Value Chain*

*Part 7: Switching Costs and Substitution*

**Coming Up in *The Business Owner***

Buy-Sell Agreements	How Risk Impacts Value and Required Return On Investment	Employee Stock Option Plans (ESOPs) - An Overview	Buyer Value and The Value Chain
■	■	■	■
The Power Of Time and Compounding of Investment Returns	Cost Drivers and Where to Look to Lower Cost	Binding Signatures and Signature Pages For Legal Documents	Buy-Sell Agreements
■	■	■	■
Disability Insurance	Switching Costs and Substitution	The Business Owner's Big Three	Disability Insurance
■	■	■	■
Writing a Business Plan In One Hour/Refining It With 20 Minutes a Week	What To Look For In a Business Appraiser	Customer Perception and Signaling	Things That Can Create Officer and Owner Liability For Company Debts

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

# 2003 TAX INFORMATION OF INTEREST

<b>PERSONAL EXEMPTION</b>	<b>\$3,050 per person (none if filing as a dependent), \$14,000 if 50 or older</b>
<b>EXCEPTION PHASEOUT</b>	<b>Starts at \$208,800 MFJ, \$104,400 MFS, \$139,200 S, \$174,000 H of H</b>
<b>MAXIMUM SALARY DEFERRALS</b>	<b>\$12,000 for 401(k), 403(b), 501(c), 457 plans, \$14,000 if 50 or older; \$8,000 for SIMPLE, \$9,000 if 50 or older</b>
<b>MAXIMUM IRA CONTRIBUTION</b>	<b>\$3,000 (Regular or Roth), \$3,500 if age 50 or over</b>
<b>STANDARD MILEAGE RATES</b>	<b>Business: 36¢ Charity: 14¢ Medical/Moving: 12¢</b>
<b>ITEMIZED DEDUCTION PHASEOUT</b>	<b>Starts at AGI over \$139,200 (MFJ, H of H), \$69,600 (single)</b>
<b>SOCIAL SECURITY</b>	<b>Under 65, can earn up to \$11,280 without repaying benefits. Over 65, no limit. Earnings subject to SS tax: Employee: \$87,000 (maximum \$5,394.00) Household Help: cash wages over \$1,300</b>
<b>KIDDIE TAX (Children under 14)</b>	<b>First \$750 not taxed; \$750-\$1,400 at child's rate; over \$1,400 at parent's rate.</b>
<b>FOREIGN INCOME EXCLUSION</b>	<b>\$80,000</b>
<b>SECTION 179 LIMIT</b>	<b>Limit on immediate deduction for assets being placed in service: \$25,000</b>
<b>CAPITAL GAINS RATES*</b>	<b>Assets held less than 1 year: taxed at ordinary income rates Assets held more than 1 year: &gt;8% for assets held more than 5 years and sold by a taxpayer in the 15% bracket &gt;10% for taxpayers in the 15% bracket, held less than 5 years &gt;20% for taxpayers in brackets higher than 15%</b>
<b>*Non-collectables</b>	
<b>CHILD TAX CREDIT</b>	<b>\$600 (phaseout begins at AGI of \$110,000 MFJ, \$55,000 MFS; \$75,000 SGL, HH, QW)</b>

## ESTATES AND TRUSTS

If Taxable Income Is:	The Tax Is:
Not Over \$1,900	15% of the taxable income
Over \$1,900 but not over \$4,500	\$285 plus 27% of excess over \$1,900
Over \$4,500 but not over \$6,850	\$987 plus 30% of the excess over \$4,500
Over \$6,850 but not over \$9,350	\$1,692 plus 35% of the excess over \$6,850
Over \$9,350	\$2,567 plus 38.6% of the excess over \$9,350

## MARRIED FILING JOINT/SURVIVING SPOUSE

If Taxable Income Is:	The Tax Is:
Not Over \$12,000	10% of the taxable income
Over \$12,000 but not over \$47,450	\$1,200 plus 15% of excess over \$12,000
Over \$47,450 but not over \$114,650	\$6,517.50 plus 27% of the excess over \$47,450
Over \$114,650 but not over \$174,700	\$24,661.50 plus 30% of the excess over \$114,650
Over \$174,700 but not over \$311,950	\$42,676.50 plus 35% of the excess over \$174,700
Over \$311,950	\$90,714 plus 38.6% of the excess over \$311,950

\* Standard deduction: \$7,950 (+\$950 if age 65+ or blind)

\* IRA Contribution phaseout: \$150,000-\$160,000

## HEAD OF HOUSEHOLD

If Taxable Income Is:	The Tax Is:
Not Over \$10,000	10% of the taxable income
Over \$10,000 but not over \$38,050	\$1,000 plus 15% of excess over \$10,000
Over \$38,050 but not over \$98,250	\$5,207.50 plus 27% of the excess over \$38,050
Over \$98,250 but not over \$159,100	\$21,461.50 plus 30% of the excess over \$98,250
Over \$159,100 but not over \$311,950	\$39,716.50 plus 35% of the excess over \$159,100
Over \$311,950	\$93,214 plus 38.6% of the excess over \$311,950

\* Standard deduction: \$7,000 (+\$1,150 if age 65+ or blind)

\* IRA Contribution phaseout: NONE

## SINGLE

If Taxable Income Is:	The Tax Is:
Not Over \$6,000	10% of the taxable income
Over \$6,000 but not over \$28,400	\$600 plus 15% of excess over \$6,000
Over \$28,400 but not over \$68,800	\$3,960 plus 27% of the excess over \$28,400
Over \$68,800 but not over \$143,500	\$14,868 plus 30% of the excess over \$68,800
Over \$143,500 but not over \$311,950	\$37,278 plus 35% of the excess over \$143,500
Over \$311,950	\$96,235.50 plus 38.6% of the excess over \$311,950

\* Standard deduction: \$4,750 (+\$1,150 if age 65+ or blind)

\* IRA Contribution phaseout: NONE

## MARRIED FILING SEPARATE RETURNS

If Taxable Income Is:	The Tax Is:
Not Over \$6,000	10% of the taxable income
Over \$6,000 but not over \$23,725	\$600 plus 15% of excess over \$6,000
Over \$23,725 but not over \$57,325	\$3,258.75 plus 27% of the excess over \$23,725
Over \$57,325 but not over \$87,350	\$12,330.75 plus 30% of the excess over \$57,325
Over \$87,350 but not over \$155,975	\$21,338.25 plus 35% of the excess over \$87,350
Over \$155,975	\$45,357 plus 38.6% of the excess over \$155,975

\* Standard deduction: \$3,975 (+\$950 if age 65+ or blind)

\* IRA Contribution phaseout: \$0-\$10,000

THE BUSINESS OWNER  
7010 S. Yale, Suite 120  
Tulsa, OK 74136

**ADDRESS SERVICE REQUESTED**

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