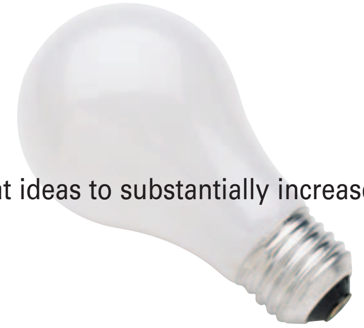
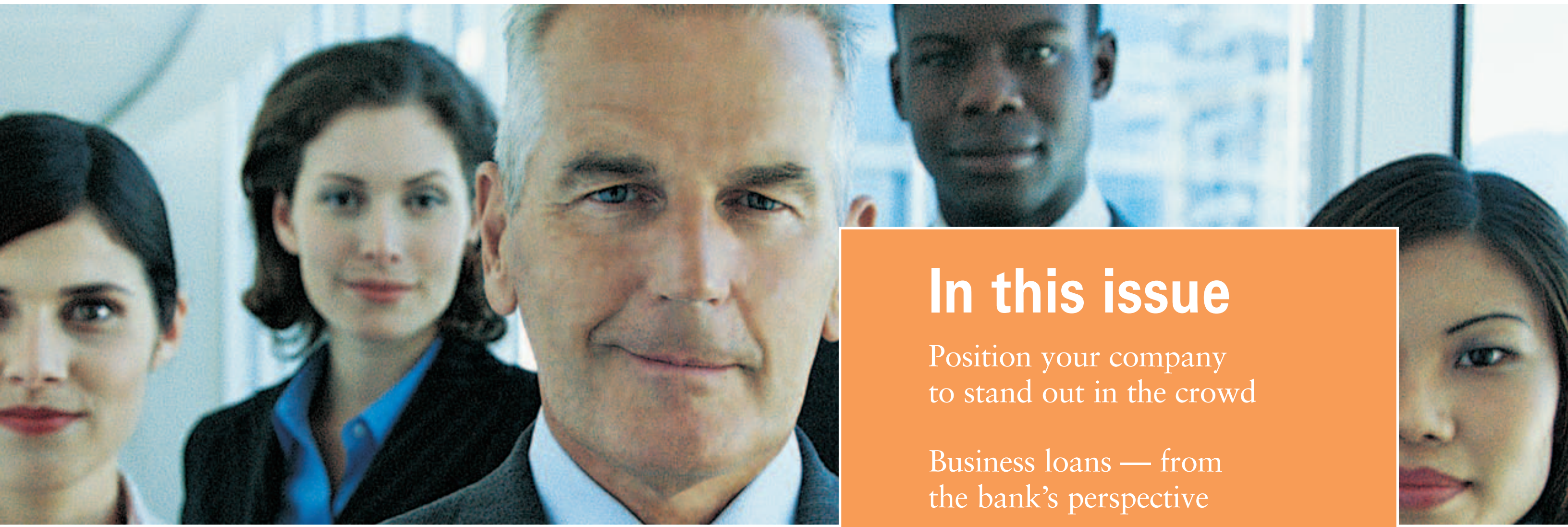
Profit Enhancement *Report*



Great ideas to substantially increase profits.

April/May 2005



In this issue

Position your company to stand out in the crowd

To improve your chances for success in today's competitive marketplace, make your business stand out. Positioning is one way to gain an edge and differentiate your company from the competition.

How do you get that edge? Every company is unique in some way — from small pricing, packaging and service variations to significant features and benefits. And each of those differences can potentially influence customers' purchasing decisions. When you position yourself correctly, you're letting your target group of customers know exactly why your products or services are more attractive to them than the competition's.

Something unique

Positioning is about successfully identifying niches and establishing brand identity. Domino's Pizza provided an ideal example. The company gained success through the virtual takeover of the delivered pizza market. Many attribute this success to their effective use of the positioning message, "Fresh, hot pizza delivered in 30 minutes or less, guaranteed."

Domino's discovered its niche market was people who insist on speedy pizza delivery with an explicit guarantee. It catered to this market and presented itself as a pizza delivery company of greater benefit to its target customers than its competitors.

In this case, Domino's played up a real difference. But even when there's little or no variation among competing products, smart positioning can make one more attractive to customers than the others. It depends on what the particular group of customers wants from their purchase.

For example, granulated white sugar is essentially indistinguishable from one brand to another. Product features, benefits and use are identical. So sugar companies differentiate their products with pricing, packaging and quality image supported by advertising.

This kind of positioning works: Consumers making purchasing decisions consistently rank price as one of the most important features of branded granulated sugars. But a brand image of quality also ranks high on consumers' lists, and companies can reinforce this image by charging a higher price for their "name brand" sugar than for generic or grocery-store brands.

A simple statement

To successfully position your company, start from square one — not by creating advertising, branding or even your positioning message but by developing one simple statement.

Your positioning statement should contain only the most salient aspect of your product — the key attribute you want your customer to remember. Take Volvo Car Corp. It's about safety, period. Volvo is not about safety with speed, sleek design, good gas mileage or affordability. Within the scope of its promotion, its positioning statement is simply "the safest car you can own."

According to a study by the Marketing Leadership Council, inadequate positioning is the most serious mistake marketing managers make when creating a brand. And everything stems from the positioning statement. If it mentions more than one product attribute, it's probably too long and lacks focus. Find a hook and hang your hat on it, like Volvo.

Positioning vs. branding

So what's the difference between positioning and branding? Solid positioning always comes first. A clear and focused positioning statement makes creative development possible.

You might think of product positioning as the infrastructure and branding as the look — logo, colors and graphics — that you wrap around it. Take the heartburn drug Nexium. Nexium's positioning is "heals the damage," and its branding is "the purple pill" and the purple-and-white typeface accompanying the promotion.

Correct positioning leads to establishing just the right marketing mix of product, price, promotion or advertising, and distribution. Positioning adds brand value to the collection of differences in the buyer's mind.

A vital tool

Positioning has become one of the most important differentiating tools a company can use. If you do it right, you'll communicate to your target buyers the most meaningful differences between your product or service and that of your competitors. From there, your packaging, pricing, features and benefits, product design, advertising, and promotion can work together to promote a consistent — and successful — message. ■

Business loans — from the bank's perspective

Bank loans are among the most common means of financing small and midsize businesses. But for the uninitiated, getting one can be time consuming and frustrating. The key to streamlining the process? Find out what's important to the bank, and focus on it.

Building a strong business plan

The first thing a banker will want to see is your business plan, addressing exactly how you'll use the loan proceeds. Start with a one-page executive summary, then briefly review your company history, ownership and primary mission. Provide an organization chart along with a brief resumé of key management members.

Next, include a SWOT analysis. SWOT stands for strengths, weaknesses, opportunities and threats. Honestly appraise what your company has going for it and where it needs help. Assess the marketplace and competition, with an overview of your market strategy.

Bankers will want to see complete financial statements and projections. Include summary information for the last three years, as well as your most recent monthly and year-to-date information. Offer revenue, income and cash flow projections for the next three years, and list all assumptions you're using in your computations.

Rehearsing your interview

Before contacting loan officers, be prepared to clearly and concisely answer some key questions:

- How much money do you need?
- How will you use it?
- What additional revenue and cash flow will it generate?
- How will your company pay back the loan?
- What's the collateral?

TARGET THE RIGHT BANKS

While you want to impress the bank with your business loan proposal, remember that you and your company are still the customer. If you have an existing banking relationship, review the pros and cons before you apply to that institution for financing. For instance, do you consider your banker a trusted advisor, or are you assigned a new face each year? If you barely know the primary person in charge of your account, it may make more sense to use this as an opportunity to find a bank that's a better fit for your business.

If you decide to extend your search, look for banking professionals who are genuinely interested in you and your business and familiar with your industry. And seek out institutions that specialize in loans to businesses in your size range — you don't want to be your bank's smallest or largest commercial borrower. Why? On the one hand, you may not get the attention you need, and on the other hand, you may soon outgrow the bank's capabilities.

After rehearsing your answers alone, meet with an associate, preferably another business owner or trusted advisor who's been through the process, and walk through your proposal. Have him or her challenge your assumptions to help you prepare for the loan officer's questions.

Focus on the bank's area of greatest concern. Financial institutions are in business to make profits. This means lending money and getting it repaid with interest, either from future cash flows or from collateral. Using your business plan sales projections, be ready to demonstrate that your company can generate sufficient cash to service the debt and ensure a profitable loan for the bank.

Banks are more comfortable lending to businesses with proven track records. For a startup or a company that has been operating marginally, collateral, including owners' personal guarantees, becomes even more important.

Presenting your proposal

You've completed your business plan, collected all relevant data and narrowed your search to three local banks that look like a good fit. (See "Target the right banks" at left.) Now it's time to schedule interviews with bankers.

To keep your meetings moving in a positive direction, arrive with an agenda. Have all your documentation in order and bring along copies for the lender. Be sure of your assumptions and projections — know the numbers inside and out.

After you've presented your case and answered all questions, find out what's involved in the bank's approval process. Ask when you can expect a response from them, and call to follow up if you don't hear back within that time.

Dealing with approval or denial

If the bank approves your loan, have your accountant and attorney review the documents before you sign them. Return the signed documents on time, keeping a full set for your files.

From then on, the cardinal rule is to maintain close ties with your lender. Let your lending officer know how you're progressing in relation to your business plan. Immediately inform him or her of any problems that arise. If you're honest and keep the lender informed of any setbacks, it will be more inclined to work with you rather than letting you default.

If the bank denies your loan, don't take it personally. Banks have varying risk tolerances, and your business just may not be a good fit. But follow up with the lending officer to find out why you were turned down. If possible, use the information to improve your chances with the next bank.

Knowing the ropes

The loan application process is a lot less intimidating if you know what information banks are looking for and how to present it. Following these steps doesn't ensure you'll get a loan, but it will help you make a strong impression and stack the odds in your favor. ■

Think before you shred

Is your record retention policy putting your company at risk?

When Arthur Andersen employees began shredding Enron Corp. papers, the world of record retention changed forever. The document destruction marked the beginning of the end for one of the world's largest accounting firms. Why? Andersen employees hadn't consistently followed the firm's record retention policy. The company was later found guilty of obstructing justice in the Enron case.

Since then, business owners and managers have been scrutinizing their companies' record retention policies. Aside from legal aspects, implementing a strong policy reduces storage costs, speeds data retrieval and increases network storage space.

What's in a good policy?

A record retention and disposal policy should address these basic questions:

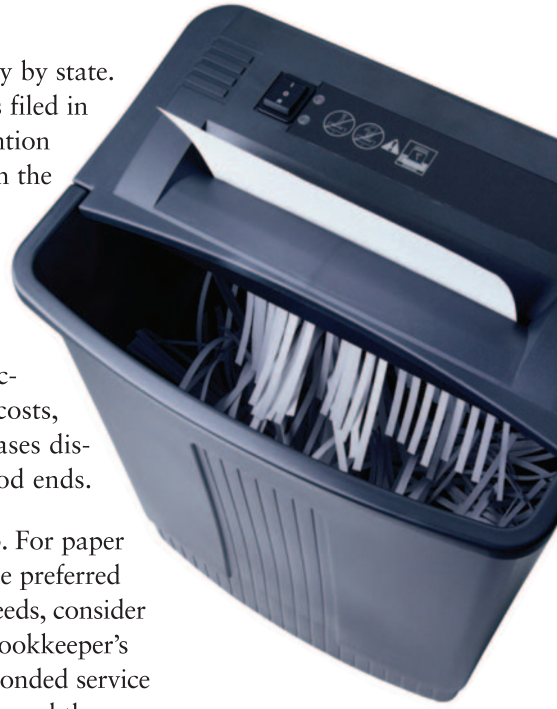
- What documents and records do you need to keep?
- How long do you need to keep them?
- What's the best storage method — paper or electronic?
- What's the best disposal method?
- How will you ensure all employees understand and adhere to the policy?

When making a policy, first determine which items you can dispose of immediately. Unfortunately, most business-related documents have a life span that exceeds one reading, so for those not governed by federal or state regulatory requirements, have appropriate department heads decide which to retain and for how long.

Now, create policy for records that fall under federal or state requirements. Some requirements for retaining documents are clear — for example, federal or state laws requiring companies to retain documents related to wages, environment, hazardous material handling and safety.

Others can be tricky. For instance, you must retain any records on which a federal tax return is based, such as depreciation schedules, for at least as long as there's a possibility for an assessment or refund. The IRS generally may assess tax for up to three years after a return is filed, and it has up to 10 years after that to collect.

State return limitations vary by state. For records supporting returns filed in multiple states, base your retention period on that of the state with the longest requirement.



Next, set up secure long-term storage. As much as you can, use computers. Scanning and storing documents on electronic media reduces storage costs, decreases retrieval time and eases disposal when the retention period ends.

Destruction is the final step. For paper documents, shredding is still the preferred method. Depending on your needs, consider using a small shredder in the bookkeeper's office — or contract out to a bonded service that certifies it has indeed destroyed the documents. Delete electronic files from hard drives, degauss data stored on tape drives and erase files stored on disks before destroying or reusing the disks.

Are employees in the know?

The huge losses suffered by Enron investors and shareholders, and the publicity that followed Arthur Andersen's document shredding, spotlighted the importance of consistent record retention and destruction. So above all, educate employees about how to stick to your policy with no deviations. If everyone knows the rules and follows them, you can keep your company out of trouble. ■

Long-term payoffs of hiring summer interns

As temperatures begin to warm up, so does the competition for summer internships. Hiring interns for the summer months offers more than just extra help for your overworked staff. Interns can become future employees and a great marketing tool for your company — provided you screen and supervise them effectively.

Add up the benefits

What are the major benefits of hiring summer interns? Most companies find these four dominate:

1. Interns work for you only temporarily, giving you a low-risk way to determine whether you'd like a longer-term relationship after they graduate.
2. Interns can reduce your full-time staff's stress by helping with lower-level work, assisting with short-term projects and completing tasks that have been lingering for weeks or months.
3. They generally accept lower pay than more experienced employees.
4. Just by working for you, interns demonstrate your company's commitment to community service.

For a small investment of time and money, both you and your interns have much to gain from your company's summer hiring program.

Take hiring seriously

When engaging summer interns, follow the same precautions you would in hiring an employee. Don't relive one company's nightmare after choosing a new intern. The first day on the job, Joe expected to deal directly with the CEO. He made unapproved phone calls as well as computer mistakes. The final straw came when Joe started telling full-time employees how to do their jobs. The company let him go before the day's end.

How can you avoid similar problems? Before advertising a position, draft a job description. Describe the duties and skills

SCREENING PART-TIME AND TEMPORARY STAFF

Plenty of people besides college students are looking for part-time and temporary work, during the summer and throughout the year. The easiest way to hire quality employees is to follow some simple steps:

- Conduct a thorough interview and never engage anyone on the spot.
- Describe your company and what you expect of all employees.
- Inform the applicant of your zero-tolerance drug rules. If he or she is reluctant about taking a drug test, conclude the interview.
- Ask for at least two references, and check them. Keep in mind that missing work on a regular basis at previous jobs is a red flag for future problems.

required, the supervision and training provided, and when and where the person will work. This not only informs qualified, interested candidates, it sharpens your focus so you know exactly what you're looking for.

Interview applicants the same way you would anyone applying for a part-time, temporary or permanent job. (See "Screening part-time and temporary staff" on page 6.) But also check school transcripts and review finished school projects. Meet the professor responsible for the college internship program to learn what's expected of the student and employer.

When you find a qualified intern, ask him or her to sign a letter of agreement that lists up to 10 duties. Review it together and agree to be honest with each other if things don't seem to be working out.

Offer growth opportunities

Like most employees, summer interns want to learn and grow. Offer assignments that let them use their skills and make a significant contribution. Give them goals with milestones and deadlines. If they spend the whole summer doing grunt work, not only will they be unhappy, they'll tell friends and possibly jeopardize your future hiring.

What if an intern upsets other employees or customers? Discuss the problem with him or her as soon as possible, keeping in mind that this person is at your company to learn. Decide whether to offer a second chance. Is he or she willing to correct the behavior so the mistake doesn't happen again? If not, then it's time to part ways.

Educate managers and employees to see summer interns as an investment instead of a burden. Create an orientation process followed by regular coaching and mentoring. Have managers spend five to 10 minutes every day going over assignments with interns. A monthly formal progress review should include co-workers' feedback.

Treat interns like everyone else. Include them in meetings and recognize them for successful projects. At the end of their

assignment, conduct an exit interview asking what they liked and disliked about working for you and how you can improve your program.

Slash recruitment costs

Hiring summer interns can help you recruit high-quality permanent employees at a fraction of the usual costs for hiring, training, salary and benefits. You have the summer to thoroughly assess the prospective permanent employee's abilities and give him or her a thumbs up or down.

If the intern does a good job, offer a full-time position or mention a possible summer job the next year. If he or she doesn't meet expectations, just say goodbye. The intern has the same opportunity to judge whether your company is a good fit. The result? Reduced hiring stress, with less possibility of disillusionment on both sides.

Reap what you sow

If you follow these steps, by the end of summer you should be able to look back on an internship program that relieved full-time employees' burdens, effectively promoted your company in the community and gave you a chance to connect with valuable future employees. Not a bad set of accomplishments for the dog days. ■