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ABSTRACT

This handbook was developed to provide vocational education teachers in Montana with information about entreprenuership so that they can integrate the concepts into their vocational courses. The guide provides a definition of entrepreneurship and describes the syllabus for entrepreneurship (ownership, location, financing, personnel, promotion, merchandising, customer services, and government regulation). Each of these areas is outlined along with ideas for teaching. A suggested listing of resources to be used in teaching these concepts is contained in an appendix. Appendixes also contain reprinted business journal articles on franchises, generating advertising ideas, and selling in financial institutions. (KC)

ENTREPRENEURSHIP IN MONTANA

A HANDBOOK FOR ALL VOCATIONAL AREAS 1986

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ENTREPRENEURSHIP

IN

MONTANA

A HANDBOOK FOR

INTEGRATING ENTREPRENEURSHIP

INTO

ALL VOCATIONAL

AREAS

BY

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Preface

This publication, Entrepreneurship in Montana: A Handbook for Integrating Entrepreneurship Into All Vocational Areas, was produced under a grant from the Office of Public Instruction, Ed Argenbright, Superintendent, Helena, Montana. The author is Dr. Ron Harris, Director of Cooperative Education at Montana State University and faculty member of the College of Business at MSU.

Entrepreneurship

in

Montana

A Handbook for Integrating Entrepreneurship into All Vocational Areas

There is no more signigicant and hopeful movement occurring in the United States today than the emergence of a truly entrepreneurial economy. Even countries such as Great Britain and France, strongholds of socialist governments, are experiencing a revolution in the entrepreurial field. In 1984, alone, over 63,000 businesses were started in these two countries as key legislative changes enabled individuals on unemployment compensation to use their income-maintenance benefits as investments in new companies.

What is at the heart of this entrepreneurial emergence? According to Peter Drucker, renowned management theorist and author, the entrepreneurial push of the 1980's is coming from new applications of management to several significant areas:

- to new enterprises, whether business or not, whereas most people until now have considered management applicable to existing enterprises only;
- to small enterprises, whereas most people were absolutely sure only a few years ago that management was for the "big boys" only;
- to nonbusinesses (health care, education, and so on), whereas most people still hear "business" when they encounter the word "management";
- to activities that were simply not considered to be "enterprises" at all, such as local restaurants;
- and above all, to systematic innovation: to the search for and the exploitation of new opportunities for satisfying human wants and human needs.

Other management theorists point to the tremendous group of baby-boomers just turning forty years old, who have dreamed of owning their own business, as the real impetus behind the surge in entrepreneurial activity. This group, it is argued, has finally amassed the resources and mustered the courage to start out on its own. Whatever the origin of entrepreneurship it is clear that it is a movement in full swing not only in the U.S., but in other parts of the world as well. Even China is experimenting with entrepreneurship as a new vehicle for pushing their state-mandated economy forward.

Entrepreneurship Defined

Not every new business that is begun is entrepreneurial, nor does it necessarily represent entreneurship. Dr. Drucker, in fact, is very adamant about this point:

> The husband and wife who open another delicatessen store or another Mexican restaurant in the American suburb surely take a risk. But are they entrepreneurs? All they do is what has been done many times before. They gamble on the increasing popularity of eating out in their area, but create neither a new satisfaction nor new consumer demand. Seen under this perspective they are surely not entrepreneurs even though theirs is a new venture.
>
> McDonald's, however, was entrepreneurship. It did not invent anything, to be sure. Its final product was what any decent American restaurant had produced years ago. But by applying management concepts and management techniques (asking, What is "value" to the customer?), standardizing the "product," designing process and tools, and by basing training on the analysis of the work to be done and then setting the standards it required, McDonald's both drastically upgraded the yield from resources, and created a new market and a new customer. This is entrepreneurship.

Another example is cited by Dr. Drucker of a foundry in the Midwest that is a truly entrepreneurial venture:

> Equally entrepreneurial is the growing foundry started by a husband and wife team a few years ago in America's Midwest, to heat-treat ferrous castings to high-performance specifications-for example, the axles for the huge bulldozers used to clear the land and dig the ditches for a natural gas pipeline across Alaska. The science needed is well known; indeed, the company does little that has not been done before. But in the first place the founders systematized the technical information: they can now punch the performance specifications into their computer and get an immediate printout of the treatment required. Secondly, the founders systematized the process. Few orders run to more than half a dozen pieces of the same dimension, the same metallic composition, the same weight, and the same performance specifications. Yet the castings are being produced in what is, in effect, a flow process rather than in batches, with computer-controlled machines and

and ovens adjusting themselves.

Precision castings of this kind used to have a rejection rate of 30 to 40 percent; in this new foundry, 90 percent or more are flawless when they come off the line. And the costs are less than two-thirds of those of the cheapest competitor (a Korean shipyard), even though the Midwestern foundry pays full American union wages and benefits. What is "entrepreneurial" in this business is not that it is new and still small (though growing rapidly). It is the realization that castings of this kind are distinct and separate; that demand for them has grown so big as to create a "market niche"; and that technology, especially computer technology, now makes possible the conversion of an art into a scientific process.

Entrepreneurship may be defined as "the useage of managerial skills and talents that are necessary to bring the factors of land, labor and capital together to create a new or different product or service." As an origination of economic activity the entrepreneur takes a risk, particularly an economic risk in hiring workers, assembling capital and machines, selling goods and services and receiving the profits that may result. Entrepreneurs are not relegated to solely economic endeavors or institutions but may also emerge in social service agencies, government structures or universities. In short, an entrepreneur can be found in any area of life or work, and is, in essence, the engine that drives the train.

It is particularly important to note that entrepreneurs may be found in all areas of Montana's diverse economy. Big Sky Airlines, Summit Engineering, Diamond Bar Ranch - all represent entrepreneurial genius. Entrepreneurs exist in all of Montana's vocational area classifications: Agriculture, Industry, Home Economics, Marketing, and Business and Office Education to name a few.

The Syllabus for Entrepreneurship

While interest in Entrepreneurship is at an all-time high, curriculum development has lagged behind in Montana's vocational program areas. Which areas of the many associated with entrepreneurship should be stressed in vocational programs wishing to teach students about the subject? The following eight have been identified:

- Ownership
- Location
- Financing
- Personnel
- Promotion
- Merchandising
- Customer Services
- Government Regulation

Each of these areas will be outlined below along with ideas for teaching. A suggested listing of resources to be used in teaching will be in the appendices.

Ownership

Most businesses in America today are individually owned. This is true in spite of the fact that it appears that giant corporations comprise most of business ownership. With the recent surge in entrepreneurship - some estimates running as high as 10,000 new businesses being started each week - it is natural to ask the question: which type of ownership is best?

There are three common forms of individual ownership for small businesses:

- Sole Proprietorship
- Partnership
- Franchises

The sole propriatorship has the following favorable characteristics:

- Ease of entry and exit - Paperwork and legal requirements for setting up a sole proprietorship are very minimal.
- Sole managerial authority - The business can be run without interference from anyone and ensures a high level of independence.
- Right to all profits - As the sole owner all profits accrue to the entrepreneur.
- Notable tax benefits - Since sole proprietorships are not taxed directly, owners pay taxes at the regular rate for individual tax payers.

There are also several significant disadvantages to the sole proprietorship form of ownership:

- Unlimited liability - Since the owner is the business, all the financial liabilities of the business are the owner's. Loss can extend not only to the business, but to the owner's personal wealth as well.
- Limited Size and Finances - The sole proprietor has only the money that the owner has to pump into the business.
- Limited life - The business survives only as long as the owner lives. With his/her death the business ceases to exist.

The second form of business ownership is the partnership. Of course, partnership means more than one; therefore a partnerhsip is a business with two or more co-owners. At least one of the partners in each partnership is a general partner. This person generally is responsible for managing the business, shares in profits and shares losses. However, a limited partner may also be one of the partners and his/her responsibility or authority is limited to specified areas of operation. The third form of partner is the silent partner. While limied partners share in profits, they have no authority or responsibility in the affairs of the business. Finally, a secret partner is actively involved in the affairs of the business but wishes his partnership status to be kept secret from the public.

What are the advantages of the partnership form of ownership? Consider these four:

- Ease of entry - While similar to a sole proprietor, the partnership only requires one additional step - the forming of a legal partnership agreement. The agreement specifies how profits will be shared, lines of authority, rights of certain partners, and so forth.
- Tax Benefits - Partnerships are not subject to direct taxation, but tax laws treat the income earned by the partnership as

the personal income of the partners. After each partner's share is taxed, there are no additional income taxes paid by the partnership.

- Division of Labor - Strength in diversity is created since each partner can bring individual strengths to the partnership.
- Better Financial Flexibility - Quite simply, two or three people can generate more money through borrowing and personal investment.

Of course, the partnership form of ownership also has distinct disadvantages:

- Unlimited Liability - All general partners have unlimited liability for all business debts. Also actions taken by one partner (say, running up a debt) are binding on all partners.
- Difficulty of Dissolution - It is very difficult to get out of partnership. A partner usually must find someone to buy his/her share if he/she decides to leave. This procedure, along with such details, should be covered in the partnership agreement.
- Limited Life - In a partnership if <u>any</u> of the partners should die or become mentally or psychologically incompetent, the partnership ends.

The third form of individual business ownership is franchise ownership. A franchise is the operating agreement whereby one party agrees to operate a business developed by someone else in a specified area. Normally, the franchisee agrees to follow the methods and procedures developed by the franchisor and pays for the right to conduct this business. Agreements generally involve rights to: operate the business in exchange for a fee, exclusive rights to a specific area and royalty payments (percentage of sales.)

Normally a package of services is offered by the franchisor. These include: advertising, sales and merchandise training, site selection, lease negotiation, management consulting and training for workers.

Appendix A includes a complete breakdown of the advantages and disadvantages of franchising in an article by Dr. Jim Larson, who recently wrote an article for the Montana Business Forum.

One additional form of ownership deserves to be mentioned. It is the corporate form of ownership and is very different from the proprietorship, partnership or franchise. Corporations can be classified in many different ways depending on the corporation's ownership status, profit status, marketability status and charter status. For the purposes of this handbook, this form of ownership will not be covered in depth since most vocational students will not be involved in forming corporations. In addition, this is a handbook about entrepreneurship and most vocational students will be involved in one of the other individual ownership forms in their entrepreneurial endeavors.

Location

One of the most critical decisions an entrepreneur will have to make involves finding a suitable location for his/her business enterprise. The following factors should be considered:

- Locating a Business in the Central Business District (CBD). CBD's are very integral to some business communities, while in others CBD's are secondary or tertiary attractions to consumers. The key question to be asked is: Is the CBD a center of trade and business activity, and is there a number of specialized establishments sufficient to service consumer demand? CBD's have real estate of highest value; are characterized by commercial density; have maximum pedestrian concentration; and contain the greatest vehicle congestion.
- Locating a business in a non-Central Business District - Non CBD locations include neighborhood, string streets and shopping centers. The neighborhood shopping center, which is usually a small center, usually has one supermarket, a

hardware store, a drug store and several convenience shops. String streets are those that lead away from an outlying major business district. Heavy traffic usually prevails and includes such businesses as accessory shops, automobile dealerships, low-priced restaurants, and service stations. Shopping centers, of course, are the major development of the past 25 years. Normally a shopping center's buildings and land is owned by one person who basically "developed" the shopping center. Buildings or specific sites are leased to store owners. Most shopping centers attempt to balance the goods and services available. Cost of square footage of location sites - Of course square footage cost must be kept to a minimum in order to assure business success and profitability. Comparative analysis should be made of each locational site.

- Adequacy of labor force - Such factors as the number of people, their skills and training and competition for skilled laborers must be considered.
- Proximity to markets - In many cases being located near major markets is critical to business success. Restaurants, schools, certain manufacturing operations and others similar must be near their markets. With several exceptions, large manufacturers often locate near large population centers in order to draw from a large pool of skilled workers and to avoid high shipping costs.
- Competition - The presence of, and strength of competition, must be measured in choosing locational sites.
- Transportation - If goods are to be produced and shipped, what are the transportation services available to see that this function is performed smoothly and with dispatch?
- Traffic Flow - If the business enterprise depends on customer traffic, is there evidence that the preferred location site draws a good traffic into the area of the site?

These are the basic factors that must be considered by the prospective entrepreneur. Vocational teachers should provide many examples of each of these considerations from local businesses. Is there a particular site in the local community that simply cannot seem to hold a business for longer than a year, or even six months? Why is this so? Is the location suitable for the kinds of businesses typically locating there? Is there sufficient traffic flow for the type of business? What is competition like? Encourage students to talk to store owners, manufacturing owners, farmers and ranchers about the factors of location in accessing their primary markets for their products of services. It is also helpful to have students determine what business they would like to be in and then set about finding a suitable location. The process is very educational to most vocational students, will be lessons well-learned, and will provide life-long learning/ analyzing tools.

<u>Financing</u>

Financing a business enterprise is often a necessary part of starting a business or substantially expanding the business. Most people do not have sufficient funds to operate an enterprise without some form of borrowing. Day to day operations often must be financed. Things such as wages, supplies and bills must be paid promptly and financing is necessary to accomplish this.

- Short Term Financing - Banks are the most prominent source of short term financing. Such financing is accomplished through three common loan vehicles: a) Bank loans; b) lines of credit; c) Financial instruments honored by banks. Term loans are bank loans for a specified term, often to finance a specific business activity such as financing inventory purchases, paying bills or providing working capital. Lines of credit provide credit up to a certain limit, say 50,000, without gaining prior approval for specific expenditures up to that amount. Lines of credit are somewhat difficult for the new business entrepreneur to obtain since banks normally require a strong business history, evidence of trustworthiness in business operations and some familiarity with the banker. Financial instruments will not be discussed in depth here since once again these are out of the realm of familiarity for most vocational students interested in entrepreneurship. The three most common instruments accepted by banks are: drafts, trade or bank acceptances, bills of lading and warehouse receipts. Exact descriptions of these instruments may be found in the resources section listed at the conclusion of the handbook.

- Long Term Financing - Long Term Financing occurring over several years is accomplished through equity financing and debt financing. There are three forms of equity financing: common stock, preferred stock and retained earnings. Once again resource materials will be listed to assist in studying each of these but will not be elaborated on here. Debt financing is the second major source of long-term financing. Debt financing is accomplished through a term loan with banks or through the sale of a legal instrument known as a bond through insurance companies, individuals and other corporations. Sources are provided which can easily reference the strength and advantages of each of these.

The key to obtaining any financing at all is good credit, personal and business. Without a good credit rating, it is impossible to obtain credit for business operations from either of the two major sources: the trade industry or banks. Trade credit is that offered to businesses on the merchandise they order and plan to sell. Typically, customers with good credit can get goods shipped and have between 10 and 30 days before having to pay for the merchandise. This gives the businessperson valuable time to begin merchandising the product and creating a good cash flow before having to pay for the product. The interest rates given by the supplier for this time period often exceeds local bank rates for such financing and therefore banks are preferable in this situation. But it must be stressed that credit is hard to establish and easy to lose. The entrepreneur must zealously guard his/her credit rating: It is the lifeblood of the effective business operation because it provides the basis for obtaining infusions of capital to business on both a short-term and long-term basis.

For vocational students, it is particularly important that they understand the importance of paying bills in a timely fashion; budgeting to establish good reliable payment plans, and the way in which overextension affects their ability to pay bills in a timely manner. The foundation they establish in their personal credit will be important as they also establish a good business credit. Good business credit can make or break any organization.

Personnel

Employees form the bulk of any business enterprise. Therefore effective utilization and management of employees will have a major impact on the business's chance for growth, employee turnover, growth in the company and employee problems - all of these require an organization to be well organized in its personnel functions. Personnel functions may be divided into the following major categories:

- Determining Personnel Needs
- Qualifications required
- Recruitment of Employees
- Selection of Employees
- Training and Developing Employees
- Supervising and Administering Pay Plans

Determining personnel needs and qualifications is normally assisted by a job analysis of the work to be done and a job description which includes job title, duties and supervision. Additionally, the job specification sheet lists the qualifications required in education, training and skills.

After a determination has been made as to how many employees are needed, qualifications required and what jobs they are needed for, the recruitment process begins. Recruitment is accomplished through:

- Newspaper ads
- Word of mouth
- Referrals
- Employment Agencies
- Help Wanted Signs
- Family and Relatives

Selection of employees from those responding to the various forms of advertising is the next step in the personnel process. Selection is really a two step process. First, it is the process of matching applicants with the job they do best. Second, it is matching each job with the person best fitted to do the job best. Selection normally involves the following:

- Preliminary Interview
- Application Form
- Selection Tests
- Investigation of Background of Applicant
- Final Interview
- Induction

Training and development, the next step in our rev'ew of personnel functions, involves:

- Training accomplished through on-the-job training, classroom related training and simulated training on real machines.
- Development of employees to assume greater levels of responsibility through training in planning, organizing, staffing, directing and controlling operations within the business firm.
- Updating skills in technical areas and providing training in the firm's philosophy of business.

The final step in personnel functions is supervising and administering pay plans. This is one of the most difficult functions of personnel management. Wage payment plans may be generally divided into three general categories: payment based on production, payment based on hours worked and a combination of hours and production resulting in some incentive plan. Of these three, the last plan, the combination plan, is probably the most effective plan. Each person needs an incentive to produce more, but a base line of pay needs to be established to ensure a feeling of stability among employees. Of course the idea behind wage plans is to establish a level of wages that will enable the business firm to secure and maintain good workers. Factors to be considered in determining exact wages include:

- Supply and demand for skill needed
- Ability of the business to pay at certain levels for certain jobs
- Presence of collective bargaining in some categories of workers
- Prevailing industry wages paid for particular skilled occupations
- Prevailing standard and cost of living of the surrounding area.

Vocational students need to be alerted to the importance of each of these personnel functions. They should be encouraged to ask questions about each of these personnel areas. How would they go about defining jobs to be done, and the recruitment and selection processes? How much would they pay for a carpenter, or assembly line worker? What if limited internal resources did not permit employees to be paid at that rate? What would happen then? These and other similar questions force students to think through why they want certain treatment on a job, and how easily they feel frustrated in a dead-end job. How could businesses avoid that feeling in employees through a good training and development program? Have they ever received good training on a job, or a co-op assignment that was rewarding?

Promotion

Promoting the business's product or service to the intended target audience is one of the very important parts of the marketing effort. Promotion involves three basic activities:

- Personal Selling
- Mass Selling
- Sales Promotion

Personal selling takes place at every level of the marketing effort. Within this context, however, there are several forms of selling that need to be identified:

- Across-the-counter selling
- Door to door selling
- Manufacturer's sales representatives who sell to middlemen
- Wholesalers who call on manufacturers
- Group selling
- Executive selling
- Telephone selling

Personal sales efforts form an important linkage between the business firm and the public. They can act as important conduits of recent product information and development as well as feed important product information back to the home office.

Mass selling involves the promotional efforts accomplished through advertising which is aimed at masses of people. Advertising is distinguished from public relations efforts in the following way: advertising is any form of presentation of a promotional message which is paid for while public relations is also included in promotions but is not paid for. The following vehicles are used in the advertising effort:

- Newspaper
- Radio
- Television
- Direct Mail
- Magazines
- Special Advertising
- Trade Journals
- Outdoor
- Yellow Pages

Such factors as price, desired audience, type of advertising message, whether to target advertise or appeal to several audiences are all decisions that must be made. Attached to this handbook is an article that details how to use employees to achieve creative advertising.

Sales promotion refers to all of the activities that are used to aid in selling. Examples are point of sale displays, sales demonstrations, sales premiums, catalogs, etc. These activities assist considerably in promoting the product.

Vocational students should be encouraged to think about why they purchase particular products, and how and why those products appeal to them. Would they have bought a particular product if it was sold door to door or over the counter? What types of products are best sold through mass media versus direct selling? It is helpful to send students out into the community to look for point of purchase display materials and come back with a report on how helpful they feel their displays are. They will hopefully discover that promoting the product effectively is a very specialized task and requires a sound plan of action if their entrepreneurial efforts are to succeed.

Merchandising

Merchandising products requires some very deliberate planning. Consider this example given in Samson & Wingate's Retailing Merchansising 9/E textbook:

> Bill, who manages the Eastside Sports Shop, has noted the increased interest in soccer. He has decided that the store will carry a line of soccer balls, shoes, and related clothing. This represents a policy decision. Bill's next step is to review sales in other sports areas and project the level of sales that may be expected from soccer equipment. This activity is repeated for the entire range of goods carried by the Eastside Sports shop and is necessary in the planning process.

According to Wingate and Samson the following process should be followed in merchandise planning:

1. Set a central merchandise policy for your store. Decide the type of customer you wish to attract. Give your store an image by emphasizing one or two--but not all--of the following: fashion leadership, exclusive lines, high quality, large assortments, low prices, personal service, convenience.
2. Lay out a detailed plan of activity to make your policy effective. Keep your focus on the type of customer you have decided to attract.
3. Develop your plan in terms of dollars and cents. Set figure goals for sales, stocks, purchases, expenses, prices, and price adjustments.

4. At regular intervals compare actual sales, purchases, prices, stocks, and expenses with budgeted goals. Encourage key personnel or department managers to set and check their own goals and budgets. It is important to know what each department is doing early enough in the planning period so that corrective action may be taken when necessary.

Not only should significant planning take place in merchandising, but the following should also be done:

- Determining a merchandise budget - the best budget for business owners is the six month budget which plans a budget plan with five main areas - sales, stocks, purchases, expenses, and profits. Larger stores may include other categories as well.
- Determining Product Lines - Typically, product lines revolve around three areas: staple goods (also called convenience goods) which are any goods/services that are used regularly, frequently purchased and are low in price; shopping goods which includes items such as automobiles, men's clothing, women's apparel, big ticket items, etc. Normally, brand names play a major role in customer selection of shopping goods, although price is frequently a consideration in large ticket items; and fashion goods which apply primarily to clothing and include the latest styles, fashions, etc. National brands often assure quality control as well as a heavy promotion through the national media. Further, they often carry a standard price. Private brands are growing rapidly in acceptance and in some places. For example Sears, Roebuck & Co., states that 90% of its volume is done on its own brands. Private brands can often be bought by the retailer for 20-30% less than national brands. A good product mix must be available in most business firms in order to make a profit. Often one product line is simply not sufficient to enable a business to survive in tough economic environments.
- Selecting and buying merchandise - Following the same categories outlined above, purchases of convenience goods is normally made through the sales reps periodic calls and through cooperative buying arrangements. Shopping goods are selected and purchased through: 1) trips to market, 2) trips to resident offices of large suppliers and 3) group guying arranged by resident offices for member stores.
- Negotiations with suppliers - five different types of discounts are

normally available from suppliers. These are: Quantity Discounts, Trade Discount, Cash Discount, Seasonal Discount and Anticipation Discount. References are given at the conclusion of this handbook to where each of these terms are explained in full.

- Pricing merchandise - Several different pricing methods are used in pricing goods/services:

    Mark-up Equation is expressed as - cost plus markup equals retail (C+M=R). As an example, if a Made in Montana piece of pottery costs the retailer $8, plus a markup of $5, the price to the consumer is $13 (8+5=13).

    Mark-up Percentage of Retail is expressed as:

    $$\text{Mark-up Percentage} = \frac{\text{mark-up in dollars}}{\text{price}}$$

    As an example, suppose that a shop owner buys a Made in Montana wood stove for $300 and plans to sell it for $500. The markup is $200 and the percentage of markup is 40 percent.

Markups are planned in order to make the business profitable. In order to plan for profitability, the entrepreneur must estimate the following figures:

1. Total projected sales for the year
2. Expenses for the year
3. Price reductions (special discounts, shortages, markdowns, etc.)
4. Profit goal for the year

One excellent formula that works very well for calculating prices, taking all of these factors into consideration is:

$$\text{Initial Markup} = \frac{\text{Expenses + Profits + Price Reductions}}{\text{Sales + Price Reductions}}$$

For example, suppose that the entrepreneur estimates annual sales of $50,000, expenses at $15,000 and price reductions at $5,000. Finally, a profit goal is set at $2,500. The formula would then read:

$$\text{Initial Markup} = \frac{\$15,000 + \$2,500 + \$5,000}{\$50,000 + \$5,000} = \frac{\$22,500}{\$55,000} = 40.9\%$$

Without going into all the specifics of the formula, it should be noted that this formula enables an entrepreneur to figure out what the percentage of markup must be if a business is to cover all expenses and price reductions and still realize a profit.

Vocational students should be introduced to the various facets of merchandising regardless of what type of business they are considering entering or beginning. As aspiring entrepreneurs their business success will be inextricably used to their ability to price their goods and services. Perhaps the best way to introduce students to pricing is to have them bring an assortment of relatively new products from home and begin working through the pricing process. What would be the ideal pricing for a certain product, given its manufacturing cost: After the price is determined students can work out percentages of markup, formulas for determining profitability based on their project sales goals and so forth. Another option is to have the instructor ask area merchants to bring several new products to class and work out pricing with the students for one or two of them. Then introduce several other new products and have students work through the pricing process by themselves. A discussion can then follow about how these products would best be priced.

Whatever teaching technique for pricing is used, students should get the idea that effective merchandising must not only attract customers but provide a profit margin for the entrepreneur. Competition, market demands and customer demand should also be considered when merchandising products and services. With effective merchandising the following should always be involved:

Determine a merchandise budget
Determine product lines
Select and buy merchandise
Negotiate with suppliers
Price merchandise

Each of these areas may be studied in depth, but since this is a handbook for use in all vocational areas,,the discussion has been kept very brief. It is suggested that if more in-depth information is needed that the vocational instructor check the resources cited at the conclusion of this handbook.

Customer Services

Customer services typically covers the numerous services that a business offers to customers before, during and after the sale. These services create a favorable impression on the consuming public and in large measure determine the personality of the business enter ise. There are three major classifications of services that a business offers: selling services, profit services and convenience services. A fourth possible category - community services - will not be covered in this discussion. Selling services involves:

- Personal Selling - These are services provided if there is a need for an explanation of a complex product; if there is a need for demonstrations of a product; and/or if the item is a big-ticket item. Customers who typically do self-service buy smaller-ticket items where individual choice is not enhanced by the presence of the salesperson. Of course some combination of both personal and self-service selling takes place in most businesses.
- Telephone Ordering - Oftentimes a customer will call and request an item mailed or request information in order to make a purchase over the telephone.
- Returns and Adjustments - Customers are increasingly demanding liberal return policies which means that an adjustment must be made for a returned product in cash or credit (if the item was purchased on credit). Credit slips to be used on the next purchase are also widely used.
- Delivery - Most businesses that handle larger items often will offer delivery services. Depending on the product and local considerations charges may or may not be made for the delivery.
- Credit - The granting of credit involves consideration of the four "C's" credit:

  --Character - Stability of employment, living habits reputation of associates, etc. go into making a character decision relative to granting credit. This information is gained primarily from retail credit bureaus.

  --Capacity - Capacity refers to the ability to earn and must forecast an applicant's ability to earn in the future.

  --Capital - Capital refers to the tangible assets that the applicant owns and which can be foreclosed on should the applicant default in repaying the loan. Bank accounts and personal references can be used to determine capital as well as reports from a credit bureau.

  --Condition - Condition refers to the overall financial condition of a business operation that an applicant may be involved with.

The second major type of customer services is convenience services. These services include:

- Store hours - It is recommended that store hours be tailored to the local market. This means that if competitors are open at 9:00 a.m. and close at 9:00 p.m., it is a good idea initially to be open the same hours. Changes can be made depending on customer demand and as the situation warrants it.
- Parking Facilities - Careful consideration should be given to this convenience since customers are becoming increasingly sensitive to this issue. Several national publications have suggested that the lack of convenient parking is a major factor leading to the demise of downtown shopping. Of course shopping centers and malls have capitalized on this convenience.
- Pay phones, restrooms and easily accessible information - Each of these conveniences is self-explanatory.

The third type of convenience service is profit services. Profit services are typically covered in larger stores and therefore are not particularly applicable to the beginning entrepreneur or entrepreneurship as taught in the vocational classroom. Therefore, this area will not be covered except to define the various types of profit services and provide several examples.

Profit services represent those services provided by the store as an add-on to a sale. For example, kitchen linoleum flooring may be sold to a customer with the installation service provided at $2.00 per square. The installation service would be considered a profit service. Another example would be the cafeteria at a K-Mart store. The cafeteria is a profit service. The idea is that the service should not only provide a service but turn a profit as well. Other examples would be: hair salons, key cutting, car rentals and insurance services.

These three services - selling, convenience and profit services - form the core of customer services provided by a typical business. Of course, new business enterprises may not have as many services as more established ones, but as a business matures customers come to expect more and more services. In order to drive this point home to vocational students, it is suggested that the evolution of stores such as Sears, Penny's, Albertson's and Buttrey's be covered. Even convenience stores such as Seven-Eleven and Town Pump could be covered to demonstrate the way that customer services are continually being upgraded. Vocational students should understand the importance of customer services to attract and retain customers.

Governmental Regulations

Governmental regulations affect pricing, advertising, cometition, products carried, channels of distribution and much more. While the economic systém in the United States is based on a free marketplace, absolute economic freedom is not in the best interest of either consumers or entrepreneurs. Therefore, historically, legal constraints in the marketplace have centered on the following areas: restraint of trade, unfair methods of competition, FTC trade rules, pricing, promotion, distribution and product regulations.

Restraint of Trade

The oldest approaches to consumer protection are found in restraint of trade laws, often called antitrust laws. The idea behind antitrust laws is that prices will be kept at competitive levels if there are no unreasonable restraints on trade.

Two of the oldest antitrust laws are the Sherman Antitrust of 1890 and the Clayton Act of 1914. The Sherman Act made conspiracy to restrain trade illegal and forbid monopolies while the Clayton Act made it illegal to engage in specific practices which might lessen competition. The specific practices with which they are concerned are: price-fixing, market-sharing agreements, price discrimination, various forms of exclusive dealing and mergers leading to a monopoly.

An entrepreneur contemplating beginning a business should know that:

- A store owner cannot put pressure on manufacturers to prevent them from selling products to competitors.
- A store owner cannot undersell other retailers to gain control of a market.
- Several store owners cannot conspire to fix the prices of the goods they sell.
- A store owner cannot buy other stores if he/she is substantially trying to lessen competition.

There are some exceptions. For example farmers and ranchers can band together to form an association to process and market their goods. Also fishers and growers of aquatic products can similarly band together to bargain in selling to dealers and processors.

Unfair Methods of Competition

Unfair methods of competition are those practices which are unethical practices and deceptive acts or practices which make the competing process unfair. Several examples of this are:

- Shipping merchandise to a business that has not ordered it. The entrepreneur is under no obligation to pay for such merchandise.
- The use of "push money" which encourages sales of certain products by rewarding salespersons (with "push money") for selling those products. The idea here is that if a salesperson gets money for selling one product and not for selling another, soon the customer's best interests are no longer at heart. The salesperson "pushes" only what he/she can make money pushing.

In order to enforce unfair methods of competition many states require licensing of door-to-door salespeople and other such state and local statutes as are deemed necessary to control unfair competition.

Trade Regulation Rules

Trade regulation rules are basically codes of conduct for store owners which govern a variety of products and services. Examples of trade regulation rules are:

- Whenever a product is advertised the product must be available in sufficient quantities to meet the demand that the ad creates.
- Items must be sold at the prices advertised.
- Door-to-door salespeople must identify themselves as salespersons when seeking admission to a person's home. Deception, in other words, cannot be used to gain admission to a person's home for business purposes.

Trade rules were, until recently, enforced by the Federal Trade Commission. Recent congressional action has sharply curtailed FTC enforcement efforts but the basic rules still apply.

Pricing

In addition to the price fixing provisions outlined above, several other pricing mechanisms are illegal as well. They are:

- Predatory pricing - Charging different prices in various communities must be cost-justified and not be aimed at eliminating competition.
- Price discrimination (instances where sellers do not always charge the same prices to retailers) is illegal on goods of like grade and quantity if the price discrimination leads to lessening competition or to the formation of a monopoly. Price differentials can be made, however, where there are differences in the cost of manufacturing or delivery, or because of changing marketability for merchandise. The key act for enforceablity in this area is the Robinson-Patman Act, a somewhat controversial piece of legislation but still widely used as the enforcement vehicle for the Justice Department and the FTC.
- Selling merchandise below cost is illegal in several states but not in Montana. States that have these laws believe that

the prices at which goods are sold must at least cover the price of the goods.

Promotion

There is a wide variety of federal, state and local statutes that protect the consumer in the promotions area. Several of the more significant are:

- False and deceptive advertising is illegal when untrue representations are made about price savings, comparable value and warranties.
- Advertising which makes unsubstantiated advertising claims is illegal because it misleads the public. Store owners may be required to furnish data to confirm advertising claims which appear to be unsubstantiated.
- Bait and switch tactics involves advertising products at an unusually attractive price and then "switching" the customer to the higher priced product once they enter the owner's premises. This tactic is illegal.

Distribution

Distribution involves the process of moving the goods from supplier to market. In this process, it is illegal to:

- Assign exclusive territory or geographic area to a product or service. In other words an agreement cannot be made between supplier and store owner to only supply one store owner within a certain geographic area.
- Tie products sold by the supplier to other products which must be purchased as well. Occasionally a supplier may require a store to carry an entire line of items if the retailer is to get the one item desired. This is an illegal tying arrangement even though tying arrangements are permitted in certain franchising situations.
- Attempt to eliminate competitors by specifying which types of stores may be allowed in shopping centers. Occasionally anchor

stores in large centers will dictate which other stores can be allowed in the shopping centers. It is illegal to eliminate competitors in this way.

- Construct an exclusive agreement in which supplies dictate that store owners can only handle their products and not the products of competitors. This is known as exclusive dealing and is illegal under the Sherman Act.

Product Regulation

Products are normally regulated through warranties. A warranty is simply an affirmation by the seller as to the quality or performance of the goods that are sold. There are two types of warranties: express and implied. An express warranty is a written warranty while an implied warranty is an understanding of sorts that the merchandise is fit for the purpose for which it is being sold. The salesperson has to be very careful not to exceed the limitations of the warranty when presenting the product.

Additional study of the Magnuson-Moss Warranty Act of 1975 is recommended for indepth understanding of warranties covering consumer products and presale availability of warranty information. Technically many warranties are those of the manufacturer but if the seller offers some type of warranty, such as parts and labor, this would also be regulated by the Magnuson-Moss Act. The three most common applications of the Magnuson-Moss Act require sellers to:

1. Reveal warranty information to consumers before they buy.
2. Disclose all warranty terms in simple language.
3. Establish a procedure for handling consumer complaints.

As to the issue of product liability it remains unclear whether a particular seller is liable for product failure when the product is truthfully represented by the seller. In other words the store owner should once again by very careful in not misrepresenting a particular product. The key once again is to not go beyond the limits of the warranty in representing the product.

In summary vocational students should understand that the marketplace which they would enter as an entrepreneur is a regulated marketplace. There are laws which regulate methods of competing, trade, pricing, promotion and distribution. What has been presented here are the "essentials" of government regulations of the marketplace.

Students should be given concrete examples of false and deceptive advertising, bait and switch tactics, exclusive dealing and tying arrangements so that they can recognize and understand illegalities in the marketplace. As they put together an advertising campaign perhaps they should ask: Can I substantiate the claims I'm making on behalf of this product?

Entrepreneurship is the movement of the 1980's. Some estimates now put the number of entrepreneurial ventures at 10,000 per week in the United States alone. Why this surge in interest in entrepreneurship? The answer is not a simple one but a complex set of factors, not the least of which is a major shift in values of numerous individuals who no longer want to "work for somebody else" but be the master of their own ship. Whatever the reasons, the interest in entrepreneurship is a major movement worldwide.

This handbook represents a desire by the author, Dr. Ron Harris, and the Office of Public Instruction in Helena, Montana, to respond to this surge in interest and provide vocational education with a tool to teach entrepreneurship in various vocational areas. It is of necessity brief since it was conceived of as being a supplement to a course of vocational study and not a course in and of itself. However, all of the essentials for becoming a successful entrepreneur are included. Hopefully, many of Montana's vocational students will be stimulated by the integrated coverage of these essentials in their respective vocational classrooms to be our future entrepreneurs in Montana.

by James D. Larson

Montana Business Forum, Winter 1986

To Franchise or Not

If you are considering opening a retail business, you have three basic choices—start from scratch, buy an existing establishment, or buy a franchise. Each alternative has its advantages and disadvantages, but recent trends point to the franchise as a popular choice. Fast food franchises are highly visible; the majority of hamburger sales have been through franchises since the early 1970s. Most areas of retailing have franchise opportunities. For example, there are approximately 60 franchisors to choose from in automotive products or services; 10 for the retailing of ice cream, candy, etc.; 20 for motels; 11 for printing; and several alternatives in just about any area of retailing. Franchising now accounts for about one-third of all retail sales.

Some individuals have placed their life savings in a franchise fee and have received, not assistance, but hollow promises.

Franchising can, in principle, combine the best of two worlds: The desire and initiative of the independent owner-operator are channeled and assisted by the sophisticated business procedures of the franchisor; and everybody benefits. Yet, horror stories abound. Some individuals have placed their life savings in a franchise fee and have received, not assistance, but hollow promises. Action by the Federal Trade Commission requiring disclosure and facts have minimized the blatant abuses, but a recent survey of non-food franchised dealers (Goodman, 1984) found that 42 percent complained that their franchise companies did not perform to the level of initial disclosure in training or support services.

Thus, like many business decisions, deciding whether to go with a franchise or independently is fraught with many pitfalls and should be thought through carefully. Our purpose is to identify some of the advantages and disadvantages to consider when making this decision and to present guidelines and hints which will hopefully produce a good decision.

The Potential

One of the major problems of managing a small business is that the owner must have a broad spectrum of skills. A large retail chain has support staff for location decisions, marketing research, finance, personnel, purchasing and many other "specializations." However, the independent small business manager must make these decisions without these support people, and often without any experience in some of these areas.

A good franchisor will provide assistance and training, assess your abilities and prepare a good appraisal of the potential of the investment. Franchisors look for a pleasant and personable attitude that will enable the owner to work with customers, store personnel and the franchise organization. A successful track record and stability are important. Also, a good franchise will check to make certain you have sufficient personal financial resources to both capitalize the new venture and withstand the period of transition during which the business becomes profitable. It is a bit disconcerting to have the tables turned so that they are selecting you, but remember you are joining a large organization to which your success will be tied. You do not want to be part of an organization that does not carefully select its franchisees because failure, in even distant areas, will generate a public relations problem and dilute the assistance which you are purchasing.

The franchisor usually provides assistance in site location, building and fixturing. This assistance is very valuable because few people can acquire experience with the multitude of problems inherent in the location choice. It is far too easy to become ego involved with a parcel of land that is already "in the family," or the zoning commission, or the potential of one's home community, or...

The franchisor can provide valuable assistance in arranging financing. Researching and detailing the information needed for the business plan you will take to bankers is greatly simplified when you are part of an organization that has a proven track record with ventures of the **exact** type that you are planning.

Training programs which allow you to become an expert in the technical aspects of the new business are usually provided. McDonald's "Hamburger University" and Holiday Inn's "Holiday Inn University" are noteworthy examples. The franchisor's training program need not be extensive, but the quality and nature of the training you will receive is very important.

The franchisor will provide needed assistance in creating and maintaining your merchandise mix also. The selection of the merchandise you carry and services you offer not only directly impact your sales, but is an important aspect of the image the new store will project. The franchisor's recommendations, based on successful experience in opening many outlets, should minimize the inherent risks. Once established, you will be able to take advantage of the large buying power of the organization to lower the cost of your inventory, the expert knowledge of the purchasing staff to aid in decisions about which products and services should be expanded or contracted, and the ongoing research program of the organization.

Similar services are provided for other aspects of managing the business. The franchisor may provide proven procedures for maintenance, inventory control, personnel practices, advertising and promotional efforts, handling of receivables, bookkeeping, and a standardized accounting and cost control system. In general, these procedures will provide the owner with a structure which will facilitate sound management, a valuable service for most persons and especially important to those going into business for the first time.

While the above services are beneficial to many individuals considering going into business, the less tangible benefit of sharing the "goodwill" and image of the franchise is often the key benefit which leads to the decision to join a franchise. Many of the problems of "starting up" are related to the lack of familiarity of consumers with the new venture. Promotional efforts to increase awareness are possible, but expensive.

When the market is transitory, such as the important tourist market or freeway customer, the image of the franchisor, built by national advertising and the consumer's experience with other outlets, is a benefit which is simply not available to a local independent.

The benefits of franchising are substantial and are reflected in the success of franchises. Nationwide 62 percent of new retail ventures failed within the first five years and many more simply closed because they did not meet the expectations of the owners. Studies have shown that the major reasons for failure relate to incompetence, lack of experience, or unbalanced experience. The screening, advice, training and controls provided by a good franchisor are extremely valuable to the new retailer, and work toward these very problems. The failure rate reflects this fact. Only 0.7 percent of franchised outlets failed in 1979.

James Larson

If It's so Great, Why Are They Selling It?

At its best, franchising benefits both the franchisee and the franchisor. As mentioned in the introduction, a major motive for many franchisors is that the drive and initiative of the owner/manager is high and should result in better outlets and fewer problems than hiring a manager. Franchising allows rapid growth without excessive demand on capital and minimizes the cash flow problems which so often plague a company experiencing fast growth. The franchisor is paid both a fee for the franchise and, in most cases, also receives a royalty as a percent of sales. Thus, selling franchises can be very profitable; and, since the royalty is based upon sales and not profits, the income tends to be more stable ınd reliable than establishing a chain of outlets.

The franchise network may also provide a distribuion system for the franchisor's products which is nore reliable and controllable than selling them to ndependent retailers and wholesalers. Of particular mportance to states such as Montana, the fran:hisor's system greatly facilitates expansion into parsely populated and isolated markets. The direct nanagement of company-owned stores which are ıot in close physical proximity is difficult, but fran:hisees need much less control because they are ›wners.

However, the question of why they are "selling it" s a good one which should be seriously considered ›efore purchasing a franchise. Many companies do ›oth—that is they have company-owned units and ranchised units. As one could easily imagine, the :ompany-owned units tend to be in the choice locaions and much more profitable than the franchis:d units. Therefore, the franchisor may be only sellng the franchise when the potential for profits is ow. The profit of a franchised unit is calculated vithout a deduction for the manager's salary ›ecause the manager is the owner. Thus, when com›ared as an investment (perhaps as a percent of ales or as return on investment percent) the outlet nay look "profitable" when the "profits" are, in fact, ıothing more than the manager's salary. You may imply be buying a job—but with all the risks of ›wnership!

There is also the possibility that the franchisor is nuch more concerned with selling you the "display ›roducts," than with the long run success of your ›usiness. This is particularly true when the franchise hain is really a "pyramid." Each franchisee in a ›yramid is urged to attract new distributors. The hain becomes larger because the major goal is not ɔ sell products to final consumers, but to seek out ıdditional investors, who then seek out additional ıvestors.

Pyramids are very risky investments for several easons. They are of questionable legality, and often ›ecome entangled with the legal system. They ofer typically no territorial or other exclusive rights. \s a result the market quickly becomes saturated ı the areas where they become popular. The nature ›f the chain of "distributors" means that those who ıre early in the game have a great advantage; and hose entering late will receive little or no profit.

If the franchise you are considering "promises" ıigh earnings with little effort, refuses to disclose our actual obligations until money changes hands, ıffers no territorial protection, requires that you buy expensive "demonstration kits," or offers high incentives for attracting new dealers and few for selling the product, it is probably a pryamid scheme and should be avoided.

The Limitations of Franchising

We have discussed previously that franchising is not a sure road to success; that franchises may have low profit potential; and that some, especially the pyramids, are of highly questionable value as investments. However, even at its best, the inherent nature of the franchise system has many limitations that should be considered seriously before investing. When you establish an independent business, you are in complete managerial control, free to buy what and how you want, and don't pay royalties and other fees.

Issue One: Lack of Control

A major motivation for owning a small business is the **independence** it affords. An entrepreneurial spirit exists that cries out for the freedom to do it "right," or as an outlet for creativity that is too often lost in a large organization. A desire exists to be one's own boss and make yourself, rather than someone else, rich. But when you join a franchise you join a large organization and must operate within the guidelines of that organization.

Small local businesses develop a closeness to consumers and expert knowledge of community characteristics which allow them to adapt to opportunities and problems quickly. But the franchisee will be following national guidelines, perhaps designed more for the large city where the headquarters are located than for the needs of a small Montana community. The policies of the franchisor must be followed if you are to maintain the contract, regardless of your feeling about their appropriateness. The "red tape" of periodic reports is often frustrating to the owner. Heavy advertising in a small town where everybody knows the business may simply be a waste of funds, yet required in the franchise agreement. Products which you know would be accepted by the local community may perhaps be excluded; and you may be forced to offer products which are not in sufficient demand. A restauranteur, for exam-

Small local businesses develop a closeness to consumers and expert knowledge of community characteristics which allow them to adapt to opportunities and problems quickly.

ple, must not only offer the standard menu, but also follow the standard recipes, procedures and packaging regardless of the quality of his cook.

There is no doubt that "standardization" is a key element to the success of the franchise system. McDonald's certainly wouldn't be McDonald's if every franchise owner were free to change the menu. What would happen to Kentucky Fried Chicken if owners could decide that the "bucket" was too expensive and substituted brown paper bags? The controls are probably the biggest reason for the low failure rate achieved by good franchisors. Many operators feel very comfortable working within the system—because it frees them to do what they do best and allows the system to handle the thousand and one details. Others find the standardization and controls stifling and frustrating. The key question is, into which group will **you** fall?

Even if you decide that the advantages of franchising are worth giving up some personal control, you must also recognize that your success is tied, at least in part, to the success of the entire system you will join. If the actions of other franchisees bring discredit to the organization, you will suffer from the bad public relations. If the franchisor makes a bad decision, you will suffer the consequences.

Issue Two: Economic Considerations

There are many economic implications of joining a franchise. Although arrangements vary, it is not uncommon to have an initial investment of a franchise fee ($10,000 and up); building, equipment, inventory fees which are frequently $100,000-400,000; royalty—3-6 percent of sales; and advertising fees—another 3-6 percent of sales.

It is very difficult to assess the impact of these fees. Many of the same costs would be involved if you were to independently establish a similar business. Building, land, equipment and inventory will be required, however you decide; and it can easily happen that the plans, specifications and procedures provided by the franchisor will result in a lower investment than if you started from scratch. But you might find an existing building which, while not meeting the franchisor's specifications, would be just fine. The franchise fee itself may be an excellent investment for which you receive excellent technical assistance and training also. Replacing these services with consultants, CPAs, and lawyers may cost more than the fee, but **only** if you **need** these services.

Similar reasoning applies to the advertising fees. Part of these fees are earmarked frequently for national advertising; and you will benefit because of the national exposure. Frequently, you will be required to spend a specified amount on local advertising also. This amount has been established using the experience of the franchisor. As with many of the controls imposed upon the franchisee, you may wonder if the amount specified is optimal. In small towns, for instance, awareness isn't a problem. Your opening will be a newsworthy event so that publicity and word of mouth will have solved your awareness problem.

The royalty fee is usually the most controversial. Since it is usually specified as a percentage of sales, the goal of the franchisor is to maximize sales. But you want to maximize profits. These goals are frequently in harmony because increased sales will lead to increased profit, but sometimes this is not true. In small towns especially, it may be more profitable to operate with slightly high prices than those that lead to maximum sales. Demand is relatively fixed because of the limited population; and you may have less direct competition than your counterparts in large cities.

The royalty fee is quite high also—one of the largest expenses in many cases. A few examples may serve to illustrate the effects and considerations. Assume you have the following "pro forma" (estimated) income statement:

Sales	$500,000	100%
Cost of Goods Sold	250,000	50%
Gross Margin	250,000	50%
Expenses:		
Fixed	80,000	
Variable	75,000	15%
Royalty	45,000	9%
	200,000	
Profit	$50,000	10%

One can use this formula:

$$\text{Sales} = \frac{\text{Fixed Expenses} + \text{Profit}}{\text{GM\%} - \text{VE\%} - \text{Royalty\%}}$$

to examine the effect of royalties under various conditions.

For example, you would achieve the same profit with sales of only $433,000 if the royalty were only 5 percent.

$$\text{Sales} = \frac{80{,}000 + 50{,}000}{.50 - .15 - .05} = \$433{,}333$$

Only $371,429 of sales would be required to earn the same $50,000 profit if you were independent and paid no royalties, but had the same expense structure. Another way of looking at this is to note that a 17 percent increase in sales was required to pay for the royalty of 5 percent; and a 35 percent increase in sales to pay for the royalty of 9 percent. You can use this formula to explore various conditions. For example, you can change the profit to see what sales are required to earn the new profit level. To check what level of sales are required to earn a profit of $70,000:

$$\text{Sales} = \frac{80{,}000 + 70{,}000}{.50 - .15 - .09} = \$576{,}923$$

In general, smaller gross margin percentages will cause the royalties to have a major effect on profitability. Thus, stores such as supermarkets don't lend themselves to this royalty form of franchising. Outlets which have much of their operating expense fixed, such as motels and campgrounds, need very little extra sales to pay for the royalty.

Royalties are essentially a payment for the right to use the name and goodwill of the franchisor; and as such, it is fair to ask how much extra sales should be generated to make this a profitable expense. But you should also recognize that royalties pay for the continued technical assistance such as marketing research by the franchisor, and other services also.

In addition to the direct expenses discussed above,

Honesty and Ethical Standards: Four Major Selling Groups Rate Low

The most recently conducted Gallup Poll (summer 1985)* finds that the occupations which receive the lowest scores for honesty and ethics are those that involve selling. The four selling occupations rated include real estate salespeople, insurance salesmen, advertising practitioners or auto salesmen.

Respondents were asked: "How would you rate the honesty and ethical standards of people in these different fields—very high, high, average, low, or very low?" Twenty-four occupations were studied.

As noted below only about one person in 10 rates the ethics of the four groups of salespeople in positive terms.

The results, as reported in the August 29, 1985 *Minneapolis Star and Tribune* are as follows:

	Very high, high	Avg.	Low, very low	No opinion
Clergymen	67%	26%	4%	3%
Druggist, pharmacists	65	30	3	2
Medical doctors	58	33	8	1
Dentists	56	37	5	2
College Teachers	54	35	5	6
Engineers	53	37	3	7
Policemen	47	41	10	2
Bankers	37	51	9	3
TV reporters, commentators	33	48	15	4
Funeral Directors	31	45	15	9
Jounalists	31	47	17	5
Newspaper reporters	29	52	16	3
Lawyers	27	40	30	3
Business executives	23	54	18	5
Senators	23	53	21	3
Building contractors	20	53	21	6
Congressmen	20	49	27	4
Stockbrokers	20	51	10	19
Local political officeholders	18	53	24	5
State political officeholders	15	55	24	6
Real estate salespeople	15	49	31	5
Labor union leaders	13	35	45	7
Advertising practitioners	12	42	39	7
Insurance salesmen	10	49	38	3
Car salesmen	5	32	59	4

According to the Los Angeles Times Syndicate, these results show little change from those recorded in four earlier surveys. The results are based on 1,536 interviews with adults, 18 and older, conducted in 300 selected localities across the United States.

R.H.

**For results based on samples of this size (1,536 interviews in 300 commnities), there is a 95% confidence that the error attributable to sampling and other random effects could be 3% in either direction. Question wording and other factors can introduce error or bias into the finding of the poll.*

there may also be more subtle economic considerations. Many franchisors require that you purchase certain supplies and materials from them so they can maintain standardization and quality. In some cases, the prices you pay are fair—perhaps the economics of having the franchisor buy in quantity even results in savings to you. But one frequent complaint of franchisees is that they are required to pay premium prices for their supplies.

Before You Sign the Contract...

After weighing the pros and cons, you may decide that joining the franchise system is what you want. Many have; and most franchisees report that the decision has helped them reach their entrepreneurial objectives. But before you sign the contract, carefully check out several details.

Study the disclosure form carefully. Are the examples cited reasonable for your situation? Is the firm involved with any legal action? Are the franchisees suing? Make an independent assessment of market potential so that you are as sure as you can be that your profit will supply adequate income.

...like many business decisions, deciding whether to go with a franchise or independently is fraught with many pitfalls and should be thought through carefully.

Remember that you are paying for the right to use the name and goodwill of the franchisor. Will this right benefit you in your community? A franchisor may have a solid consumer base in one region of the country, yet be relatively unknown in other regions.

Are the franchisees happy with the franchisor? The franchisor should be willing to supply a list of people you can call. Choose those in similar communities and situations to what you expect. Call several to get their experiences. Be realistic about problems—there will be some problems with any choice you make. But as'· pointed questions about their satisfaction with initial and continuing training, support service, control, and the adequacy of income. Try and talk to some who have either failed or sold out.

Carefully check out the legal contract, and be sure to fully understand what is expected from you. What territorial right do you have? Is the franchise exclusive or non-exclusive? Are any of the fees refundable if you fail? Under what conditions can you terminate the agreement? Can you sell the franchise? What limitations are placed on the sale? Under what circumstances can you be forced to quit? Bought out? How long does the agreement last, and is it renewable? If so what are the conditions? What services are going to be supplied? Feasibility study? Training program? If so, how long does it last, where is it held, and what does it cost? What type of controls are required? How often do you have to file the paperwork? What happens if you don't do these things? What are you required to buy from the franchisor? How are the prices established?

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by Neal "Nick" Nixon

Montana Business Forum, Winter 1986

Creating New Ideas in Advertising: Altered States? or Darned Hard Work!

Neal "Nick" Nixon

When did you last hear someone complain that his or her advertising was not working? One of the complaints heard most often from Montana small business owners is that their advertising is not effective. Although our Montana media people are very professional and well qualified, they cannot be expected to do the entire job for you. Many reasons for this situation exist, but the most important one is a lack of fresh, new and interesting ideas that will sell the product or service.

The manager's preoccupation with running the business means that advertising becomes all too often an afterthought or is forgotten. Frequently, advertising dollars are spent without proper planning, without new and fresh ideas, and without the necessary commitment of time by the owner/manager. It is little wonder that advertising does not work .n such an environment.

The "Advertising Hour"

A new concept called the "advertising hour" has been introduced in recent workshops across the state, as a device to enable the owner/manager to assume control of his or her advertising destiny. The advertising hour is nothing more than (at least) one hour per week which is devoted to the sole purpose of planning future advertising. Based on the theory that two heads are better than one, this meeting should include various people who are familiar with the product and compatible with the owner/manager (employees, supervisors, manager's non-competitive business friends, media representatives, spouses, and family).

The success of these weekly meetings depends completely on the establishment of a favorable atmosphere for creative thinking. There is nothing new about the "brainstorming" concept developed by Alex Osborn in the 1930s. However, it is surprising how seldom it is used correctly.

Brainstorming: How it Works

How many times have you found yourself in a meeting in which you are afraid to speak for fear of criticism? That fear is removed by the first and most important rule in brainstorming: **No criticism!** Absolutely no value judgement is made about any comment. In fact, the moderator must

How many times have you found yourself in a meeting in which you are afraid to speak for fear of criticism?

openly instruct the team about this and all other "rules of the game" from the start.

The second rule is: **The More Ideas, the Better.** A discussion of how to get the ideas flowing follows below.

The third rule is: **The Wilder the Idea, the Better.** Some "far out" exercises are described later.

The final rule is: **Combine These Ideas into New Ideas.** Go back and pick out the **best** ideas. (Remember, there are no **bad** ideas.)

You must create with brainstorming an atmosphere of relaxed but directed energy. The group leader must make it clear that the purpose of the meeting is to come up with new and unusual

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ideas and not merely the same approaches that have been used in the past. Then, hands off! Let the discussion begin with a review of the advertising themes and strategy of the past. Did they work? If not, why not?

Right Brain—Left Brain

You may be familiar with concepts regarding functions of the two hemispheres of the brain. Without discussing the scientific literature, let us observe merely that a right-brain attitude can increase significantly the amount of creative thinking.

The theorists contend that the left brain gives us the physical data necessary for survival; and the right brain translates intuitively that data into human relationships. "Left-brained" people tend to be scientific; "right-brained" people tend to be artistic.

Free association, or the uninhibited flow of ideas, comes from allowing the right brain to "let go" without fear of being criticized. We have all been taught since childhood that one must not be wrong. This fear of being "wrong" is the greatest barrier to new ideas.

Turning Reality Around

Osborn suggests in *Applied Imagination* that you take a concept and turn it upside-down, inside-out, and backward. Our day-to-day habits have created mental "ruts" that we must erase. This reversal of reality or transformation from the familiar to the strange is the key to achieving new insight and unique and innovative ideas. Here is an exercise to help your group get the ideas flowing. Take a common, everyday observation and reverse it: birds flying backward, grass growing down, rain falling up, clothes on backward, etc. Try some for yourself! As the members suggest one outrageous idea after another, the shackles of convention start to melt away; and the group is ready to look at things in an entirely new way. The ice is broken! Laughter replaces *Robert's Rules*; and the atmosphere is electric with imagination. Go for it! Have someone write down each idea and follow the rules of brainstorming.

The Bottom Line

The ultimate responsbility for effective advertising rests squarely on the shoulders of the small business owner/manager. Some companies are fortunate enough to have an advertising budget which permits them to retain an advertising agency. However, the vast majority of small businesses in Montana cannot afford to do so and must rely on their own devices. Look around for help! Use your media, but do not expect them to do it all for you.

Get people around you who want to help and create an atmosphere where new ideas can grow.

No one knows your product better than you. Take the time and start scheduling regular meetings. Get people around you who want to help and create an atmosphere where new ideas can grow. You will discover that you are indeed now in control of your own advertising!

Creating new ideas does not come from nirvana, or altered states, but from darned hard work. You can make it happen! Go out and create a new idea today!

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Selling in Financial Institutions

Personal selling has always been deemed an important element in the marketing of products. With the increased emphasis on marketing of complex financial services requiring extensive personal interaction between a financial institution's employee and its retail (consumer) and wholesale (business) markets, the importance of personal selling is expected to increase.

A number of important studies over the years have confirmed the importance of personal contact between a financial institution's employees and customers. In fact, a study in 1978, confirmed that it is personal relationships rather than services that lead to satisfaction or dissatisfaction of customers with a financial institution.

Of course the key ingredient to successful personal interaction is the financial institution's employees. In fact, service marketing research suggests that of the four ingredients of a financial institution—skilled manpower, service functions, specialized facilities and funds—the most important of these is skilled manpower. Key research conducted in 1975 on service-oriented institutions concluded: "The delivery of most services results from the activities of people—not products; and a consumer chooses a supplier of a service because of his image or impression of people who will produce and supply the service."

There are several complicating factors for a financial institution's employees who desire to personally sell financial services. The first of these is the intangibility of the financial service. As salespeople through the years have experienced, intangibility of the product offered makes the selling job extremely difficult. Since there are no tangible features that appeal to a buyer's senses, explaining a service or differentiating from competitive services requires some specialized skills.

The second complicating factor occurs in the area of variability of service offered. Since financial institutions are not producing a standardized packaged product (like Wheaties) which the customer **must** buy to eat, the emphasis must remain on creative salespersons who can adapt the extensive services of a financial institution to the individual needs and preferences of each customer. Once again, special skills are required to perform this task satisfactorily.

Finally, the customer becomes critically important when financial services are purchased. Many financial transactions require a detailed disclosure of information by the buyer. Establishing rapport with the customer while at the same time probing for needs involves some dynamics of personal interaction that also requires specialized skills.

In summary, then, the marketing of financial services in a competitive atmosphere involves a key ingredient—employees. These employees must possess some specialized sales skills that can present an intangible financial service attractively, adapt the variability of the financial service to individual customers and personally interact with customers while probing for needs. How well do your employees stack up?

R.H.

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ENTREPRENEURSHIP

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