

WPI Venture Forum

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WPI VENTURE FORUM CALENDAR OF EVENTS

April 21, 1998

Financing Your Company's Future

May 19, 1998

The Science of Sales

June 9, 1998

Writing a Successful Business Plan and the Contest Winner!

All meetings in Kinnicutt Hall, Salisbury Labs (our usual location).

For a recorded announcement of the next program or to receive future mailings, call (508) 831-5821.

Directions to WPI Campus, Salisbury Labs, Room 115

From the East—Take Massachusetts Turnpike (I-90) to Exit 11A (I-495). Proceed north to I-290, then west into Worcester. Take Exit 18, turn right at end of ramp, then take an immediate right before the next traffic light. At the next light, proceed straight through, bearing right onto Salisbury Street. At the WPI sign, turn left onto Boynton Street. Parking will be on your right, behind Gordon Library. Salisbury Labs is up the hill across from the Library.

From the North—Take I-495 south to I-290. Follow directions as from the east.

From the South and West—Take Massachusetts Turnpike (I-90) to Exit 10 (Auburn). Proceed east on I-290 into Worcester. Take Exit 17, turn left at end of ramp, follow Route 9 west through Lincoln Square, straight onto Highland Street. Turn right onto Boynton Street. After crossing Institute Road, parking will be on your left, behind Gordon Library. Salisbury Labs is up the hill across from the Library.



THE WPI **VENTURE** FORUM

Promoting and serving technology-based entrepreneurial activity
www.wpiventureforum.org

Volume 7 No. 8
April 1998

Financing Your Company's Future

A look at the upcoming meeting

Tuesday, April 21, 1998
WPI Campus, Salisbury Labs
Registration: 6:00pm
Meeting Begins: 6:30pm
Admission Fee: \$7.00

Whether the report is written about venture capital, private investors or other sources of funds, it seems lately that during each business quarter, we read about the great amount of funds being invested in companies. Last year more than \$12 billion dollars was invested in more than 2,000 financings. This is an increase from \$10 billion invested in 1,500 financings for 1996.

With numbers like these it is critical that the entrepreneur understands the nuances of the investment community so that they can "get the gas in the tank" for growth. Once again, the WPI Venture Forum program for April is devoted expressly to assisting entrepreneurs in understanding and becoming more knowledgeable about how and where to find the money necessary to fund their early stage and emerging companies.

Topics For Discussion

We have assembled a seasoned panel of speakers who will relate their experiences in dealing with private investors known as angels, venture capitalists and some "non-traditional" sources of funding. We will also discuss the new more aggressive banking environment and why more

people are getting money from this source. Our speakers will answer questions such as:

- What does the present environment look like for financing and how do entrepreneurs find the money?
- What types of companies are getting the money?
- How do I attract an investor?
- What does an investor look for in terms of the management team, market strategy and growth and exit?
- Where are the private investors and how do I find them?
- Do private investors assess a deal differently than an institutional investor?
- What information is important to know about the terms of the funding?
- How do I figure out the issue of valuation and how much of the company must I give away to the investor?
- How should I deal with an investor after the funding? Does everybody get a seat on the board?

Our Panel

These questions and more will be answered by our panelists who include:

Rob Chandra is a general partner with Commonwealth Capital Ventures in Wellesley and is a veteran of the venture capital industry. Mr. Chandra will discuss the different segments of the venture industry and help us understand what is the best way to approach a venture capitalist. In addition, he will give us some insight on what types of deals are being done by the venture capitalist and the terms and conditions of the funds from this source of money.

John Hanselman is President of Active Impulse Systems in Natick. Active Impulse has licensed technology from MIT and has developed a sophisticated laser-based system for measuring

semiconductor wafers. Since inception Active Impulse has raised two rounds of financing. The first round funding was provided by a group of private investors that assisted the company in building initial sales. The second round was raised primarily from venture capitalists. Mr. Hanselman will share his experiences with the venture capital industry and private individuals in growing a start-up company.

Bruce Eger is Senior Vice President of Fleet Bank's Business and Entrepreneurial Services Group. Mr. Eger's group has a team of thirteen individuals who provide financing and other services to small businesses with sales up to \$5 million and borrowing requirements of up to \$500,000. Mr. Eger has been with the bank for more than 24 years and currently serves on the Board of Directors for the Western Mass Enterprise Fund, a loan fund specializing in micro loans to pre-bankable credits throughout western Massachusetts.

In addition to this group, we will have a private investor in attendance to discuss the different aspects to raising funds via a private investor. Our "angel" will discuss where to find private investors, what types of deals they are currently looking to fund and what are the terms of a private funding.

The panelists will be available on an individual and group basis for questions throughout the evening. The event promises to be very valuable for anyone seeking funding in 1998. **vf**

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**Mentor's Dinner
April 30, 1998**

**Business Plan Contest
Entry Deadline
May 11, 1998**

VENTURE

The mission of the WPI Venture Forum is to promote and serve technology-based entrepreneurial activity through education, networking, and recognition.

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1997 Business Plan Winner Follow-up - Why We Entered

By Mark Parish, Ph.D., President and CEO, Specific Surface Corporation

Last year my company, Specific Surface Corporation, entered its business plan in the WPI Venture Forum Business Plan Contest. My business partner Andrew Jeffery and I had confidence that our plan could be the winner. It was an enormous effort - the plan had many revisions, some minor and others not so minor - especially after I heard a speaker at the Venture Forum explain the 12 deadly sins of business plans. (see the April 1997 Newsletter for the article "Business Plans - The Twelve Deadly Sins" by Gordon Baty, Zero Stage Capital - editor.) We made 8 of them. But we studied and listened, and put together a much better package and launched our company.

First Presentations

When we first publicly presented our plan more than a year earlier, Specific Surface was only two weeks old. I remember our marketing, organization and sales strategy sections were heavily criticized. So, we rethought and rewrote those sections. We then presented to venture capital firms, private investors and every group we could get in front of. Over and over again, every person who read our plan did not understand what we were trying to do. We carefully listened to the questions that they had. The questions let us know in no uncertain terms that we were not explicit in the points we were trying to make. So we met, discussed, argued, agreed and rewrote the plan again and again. Soon, our readers, the venture capital and private investor who eventually funded our company, stopped asking questions about the plan itself and started asking us about our progress with respect to our plan. This meant that they understood the plan and our business of ceramic filters.

A Winning Plan

Winning the WPI Venture Forum Business Plan Contest included a \$10,000 prize which came in very handy. Half of the prize was cash and the other half were services provided by the sponsors of the contest. In addition, we received a very detailed critique of the plan from the panel following our presentation at the June, 1997 Venture Forum monthly meeting. But one of the greatest rewards was the public awareness that winning the contest did for Specific Surface. We include the winning news in mailings to impress



Mark Parish, CEO and President of Specific Surface Corporation.

our customers and prospects. We were featured as the winners in articles in the Venture Forum Newsletter, in the Worcester Telegram and Gazette, interviewed on the radio and recently in Fortune magazine. I was so pleased with the help and assistance we received from the Forum, that I now volunteer as the Chair of the monthly meeting committee.

Ongoing Process

I continue to update our business plan every quarter as our company grows and opportunities arise. I encourage all readers that are contemplating writing a business plan and those who have a plan already to enter the WPI Venture Forum Business Plan Contest this year. Entering the contest is a great way to focus your business. And winning it is even better! Good Luck! **VF**

A Case For Speed: Mergers & Acquisitions –Success Hinges On Swiftiness

by Daniel Roach, Coopers & Lybrand, LLP

High tech mergers and acquisitions are not so much announced as they are trumpeted with great fanfare. CEOs confidently proclaim such benefits as competitive advantage, new business opportunities, increased shareholder value and faster growth. Unfortunately, for all the optimism, most deals in the technology industries misfire. Too often synergies are squandered and value goes untapped.

An estimated 80 percent of all major transactions over the past three years failed to meet companies' strategic goals and financial expectations. Despite the low probability of success, mergers and acquisitions are on the rise. Internationally, in 1996 there were 3,300 merger and acquisition deals in information technology, representing a 15 percent year-to-year increase. In North America alone, there were nearly 2,000 transactions in 1996, representing a 25 percent year-to-year increase. This boom continued in 1997, as companies adapted to changes in technology and the marketplace, and to meet investors' expectations.

The number of deals masks the fact that most transactions do not work out. It is not unusual for companies to attribute disappointing post-deal performance to high purchase premiums, excessive leverage and the economy. While a drop in performance is normal, most companies do not recognize that the depth and duration of the drop is highly contingent upon how management navigates the transition minefield.

The Case For Speed

Following the announcement of a transaction, most companies go into a holding pattern and fail to sort out action plans for day one. That is just their first mistake. Most managers are so busy sweating the small stuff, waffling over the vision statement, arguing over whose best practices are better, counting office supplies, and drawing organizational charts, that they lose sight of what is really important: realizing net gain from the deal both in the short and long term.

Internal issues divert energy and attention from external markets, causing productivity to slide and service to deteriorate. The longer it takes to sort things out, the greater the likelihood that customers will take their business elsewhere,

that product development will suffer, that key people will leave and that competitors will develop countermeasures. Your competitors are not going to stop and give you a break while your company tries to cope with change. They are going to attack you ruthlessly. At the same time that you are deferring the inevitable, they are talking to your repeat customers and circling around your best employees.

Maximizes Value

The difference between a prolonged transition and a speedy one is a shareholder value. An accelerated transition maximizes the value sought in a deal as quickly as possible. At the same time, it minimizes the decline in performance that inevitably accompanies mergers, acquisitions, and other wrenching changes such as joint ventures, spin-offs and organizational restructurings.

A recent Coopers & Lybrand survey on mergers and acquisitions found that speed leads to fewer post-deal difficulties. Survey respondents that accelerated the post-deal transition and managed the process of integration on a fast-track basis reported greater success in achieving deal objectives and capturing high levels of performance.

Specifically, fast-transitioning companies reported favorable results much more often than their slower counterparts in the following areas: gross margins, productivity, profitability, cash flow, time to market and employees' attitudes and behaviors. They also had fewer problems overcoming incompatibility in management practices, information systems and administrative procedures. So important is speed to the transition process that nearly 90 percent of survey respondents reported that they should have moved faster.

Accelerating The Transaction

The financial community, recognizing the disruptive effects of a merger or acquisition, will tolerate a dip in productivity performance in the first quarter after a deal is signed. However, there are limits to this magnanimity. Companies are expected to show signs of improvement by the end of the second quarter. Organizations basically have about 100 days to get their acts together.

The following actions, taken simultaneously, can help companies stabilize the organization, generate momentum and capture early wins.

Base Transition Strategy On Value Driver Of The Deal

A post-deal "to-do" list is a mind-numbing, heart palpitating thing, typically containing hundreds of actions ranging from ordering new business cards to reconciling sales territory. Trying to do everything at once is a losing proposition. Better to focus post-deal resources - people, time and capital - on transition actions that will yield the fastest and greatest returns.

The first step in realizing gain from a deal is to conduct a value driver analysis. This process involves identifying the 20 percent of actions that will drive 80 percent of the economic value of the deal with the greatest probability of success in the shortest time frame. The results will serve as the platform for the ensuing transition.

Aggressively Manage Communications

Most post-deal communication (if there is any at all) is about shooting from the hip and hyping the deal to convince everybody that it was a great idea. Too little time is spent addressing the real concerns of real people inside and outside the organization who are confused and anxious. In the absence of adequate information, the smallest bit of news assumes monumental importance. The rumor mill starts churning faster and faster. Morale plummets, productivity drops. If each person spent only an hour each day worrying and wondering about a deal, this speculation would cost the company hundreds of thousands of dollars in lost productivity and rework due to mistakes.

Lack of communications has other negative effects as well. When customers do not hear from an organization in transition, they may very well take their business elsewhere. Several years ago, in a major merger between two large technology firms, the acquiring company neglected to communicate with one of its biggest customers. Concerned that no one had thought to call and talk about its account, the customer informed management that it was cutting its order in half and using secondary sources of supply. That account had been worth \$30 million. ►

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Growth Forecasting Is Not Just Smoke And Mirrors

By John R. Blake, Partner, Bowditch & Dewey, LLP

David Gleason opened the February 17th meeting by stating what projections and business plans should not be — they should not be based upon or derived from global factors, e.g. forecasting a 50 percent compound annual growth because this is the industry growth rate. He said that this was the mirror effect, in which someone assumed that his or her business will mirror the industry.

The Titanic vs. Southwest Airlines

According to Mr. Gleason, the preferred approach for business plans is to start with the detail and work up, focusing on day-to-day activities and from that working into the global aspects of the business. He gave as an example of the failure to begin with the details the actions of J. Bruce Ismay, chairman and chief executive officer of White Star Lines, owners of the Titanic. The builder of the Titanic, Thomas Andrews, had provided enough davits (cranes) for life boats for all passengers. But Mr. Ismay then relied on his vision of what should happen and only placed half of the maximum number of life boats on the Titanic. He ignored the detail.

In contrast, Mr. Gleason cited the example of Herb Kelliher, CEO of Southwest Airlines, which in 1990 successfully bid for the O'Hare routes of Midway Airlines when the latter went bankrupt. For the prior several years, Midway Airlines had been reported to be in financial difficulty. During these same years, Mr. Kelliher had in place a forecast of how Southwest could absorb Midway, and each year he had adjusted the forecast to

keep it current. When the time came, he was able to execute the acquisition on the spot, and very successfully. Forecasts, said Mr. Gleason, are actually this — a blueprint that can be initiated immediately upon investor funding.

Forecasting

In preparing forecasts, Mr. Gleason stated that most people followed "Boundary Conditions Analysis" — reality is likely somewhere between the best and worst cases. Mr. Gleason then set forth five components that detailed forecasts should reflect:

- (1) *A detailed understanding of requirements and risks* — risks need to be differentiated between those that only slow you down, versus those that kill you without an adequate contingency plan.
- (2) *Competency in key skills* — making sure that all areas that are important to the business are under the control of someone who is able to carry out that function, or else include plans to add that person when needed.
- (3) *Commitment to goals* — a daily business effort is needed to follow and fine-tune the forecasts. Mr. Gleason said that this will avoid two recurrent failures: (i) not knowing where you are going, and (ii) knowing where you are going, but not knowing how to get there, so that you unexpectedly arrive someplace else.
- (4) *Usable projections of cash needs* — this is not just a focus on the income statement, but a focus on cash. It needs to analyze the time needed to collect receivables, the ability to



David Gleason explains growth forecasting.

incur expenses on credit and other timing matters that affect cash flow.

- (5) *A blueprint that can be initiated immediately on funding* — since new ideas can be perishable, the importance of market penetration is paramount in order to be there first. Outside investors want to focus on how quickly their money will be used for the purposes for which it is raised.

Develop The Forecast

Mr. Gleason then described five factors for "how to build a forecast":

- (1) *Analysis* — do it line-by-line item, by department and by function, utilizing best guess where appropriate, but being sure to cover all bases.
- (2) *Building from the bottom up* — e.g. for sales, starting with how prospects are generated to how many of those will wind up as

hard orders and then to how the order will be collected.

- (3) *Completeness rather than accuracy* — best guesses offset each other, but a forgotten item can be a killer. Mr. Gleason cited Peter Drucker's statement — doing all the right things is more important than doing all things right — as particularly applicable to forecasting.
- (4) *Fine tuning* — once the preliminary forecast is prepared, run it by all who have relevant input so that its assumptions can be tested.
- (5) *A dynamic model that is easy to modify* — the forecast has to change as the underlying variables change, but you can still stay on schedule with comparable results if the forecast can be easily modified.

Summary

Mr. Gleason stated that the mirror effect must be avoided when you construct the forecast and going through the right steps to construct the forecast clears away the smoke.

In the question and answer, Mr. Gleason commented that whenever he sees five-year forecasts, he considers the first two years to be true forecasts, but the next three years to be only a vision since it is too difficult to forecast that far out.

Case Presentation

Ms. Susan Rudd

President and Founder

Acorn Communications Corp.

Susan Rudd presented Acorn Communication's plan at the February Forum. Acorn provides telephony (telephone related) applications to Internet service providers and telephone companies. Acorn's software is used to deliver integrated messaging services, principally for mobile workers ("road warriors").



Ron Bouley

Susan Rudd presents Acorn Communications' business plan.

Ms. Rudd stated that Acorn's software permits a road warrior (someone who spends more than half of his or her time outside of the office), to use a telephone to sort out, prioritize and respond to numerous messages. Acorn intends to bundle its software with a premium service into a package that ISPs will sell to road warriors. Ms. Rudd stated that the Internet was a low cost way to reach small businesses, which did not have the technical dollars available that larger companies did and that Acorn was seeking to commercialize its product around these small businesses.

Acorn was seeking financing of approximately \$250,000 to market launch its new software, to be followed by \$600,000 to further develop that software for OEM markets, followed by \$3,000,000 for commercialization of those OEM software products.

The Panelist And Comments

The panelists were David Gleason, who had earlier presented the topic of Growth Forecasting, Jim Geisman, President of Marketshare, Inc., and Theresa Lober, a Registered Patent Agent.

Jim Geisman commented that Acorn's business plan needed to crisply articulate how a potential investor would make money, and it needed to be geared to an audience of investors, rather than technical persons. He also felt that the business plan had to be clear as to how a road warrior with 200 to 300 e-mail messages survives now, and why that person would use Acorn's software. He referred to the approach of Sam Walton, of WalMart, which consisted of a basic question — "what's the deal?"

Theresa Lober commented that Acorn needed to take time to secure its intellectual property assets, and to develop an intellectual property strategy, even if it did not have significant funds for this purpose. She pointed out that for \$75, a U.S. provisional patent application could put a "stake in the ground" for one year. Ms. Lober cautioned that even if Acorn itself did not want patents, it needed to prevent being foreclosed by a competitor that got the patents. She also discussed the recent legal developments under which patents of software received more favorable treatment. Finally, she stated that a venture capitalist, as part of technical due diligence, will want the question answered — will you have to license someone else's patent to do your business — and that Acorn needed to be able to respond with a definite "yes."

David Gleason stated that he was pleased to find bottom-up financials in Acorn's business plan. He stated that he felt the presentation at the meeting, as a prototype of a presentation to venture capitalists, should have less detail and should make the complexity understandable. He also felt that Acorn was proposing too many initial products, and needed to focus on those which had the best chances of financial success.

John Blake is a partner at the law firm of Bowditch & Dewey, LLP, located in Worcester, Massachusetts. John can be reached at 508-791-3511 or at jrb@bowditch.com. VF

Action-oriented Business Plans

by Jean D. Sifleet, Attorney & CPA and Cynthia G. Sechrest, CPA

Postponing business planning is common. Carla Smithson, our hypothetical business owner, is typical. She feels like she really has a handle on her business and doesn't need to do a lot of research and write a lengthy document. Frankly, she's too busy running her business.

Being too busy is a clear sign that a planning update is needed — many businesses lose focus and profitability. Carla's business, Smooth Solutions, provides custom solutions for small businesses allowing them to run multiple applications on Windows 95 in a seamless and efficient manner. The client base has steadily grown since the January 1997 formation of the company. The business has weathered a series of crises including a cash flow crunch, unprofitable projects, unhappy customers and a big surprise in tax liability.

Carla has come to understand the value of planning and organizing her business and is working regularly with her business development team. She meets monthly with her attorney and CPA to review the results of the prior month and plan for the coming months. Her team is advising her to do a business plan — an action-oriented business plan.

An Action Road Map

Carla's team has convinced her that business planning is sort of like exercise - you know you should do it regularly but it's easy to put off because the benefits are not immediate. Planning helps you get your ideas out on paper, surface your assumptions, invite other people to review your ideas and assumptions and provide feedback. Planning enables you to make informed choices and using the timeline enables you to express your plan as an action oriented road map.

Business plans help you focus and grow your business. A clear, well-thought out business plan is mandatory if you are looking for a loan or investor. The benefits of having a business plan (or updating that old one in the file) include taking a critical look at your current situation, determining where you want to go and mapping out how you are going to get there.

The action-oriented business plan is a road map to success. So, think of this business plan as more analogous to planning a vacation. When you plan a vacation, you are constrained by many factors such as time, money and balancing the competing interests of your fellow travelers. It's the same with your business plan. In business, you are constrained by many factors, such as existing customer commitments, limited time and money. You also have to balance a number of competing interests and possible routes. Planning lets you map out different paths, on paper, and examine the alternatives before making a commitment to action.

First Step

Take stock of your current situation. If you have been in business more than a year, you have some financial results to examine. Draw a calendar timeline, and map out the highlights of each month for the last twelve months. Include your \$ sales for each month as well as key events. It is a good idea to try and connect your actions with the results achieved. So, if you ran an ad in January and February, you may be able to directly relate increased sales in those months to the ad.

With the calendar timeline, you have a summary picture of your business operations over a 12 month period on one page. If you add your \$ expenses/month to this picture, you'll have a rough cut cash flow which will give you a richer picture with which to work.

CALENDAR TIMELINE - PRIOR YEAR

Jan Feb Mar Apr May Jun

Jul Aug Sep Oct Nov Dec

Key Events (e.g., ads, promotions, new customers, big projects, good news, bad news ...)

\$ Sales/month \$ Expenses/month

Now, you can stand back and take a critical look at your business to determine what works and what does not work. This analysis is the foundation for your plan for next year.

The summary may be sufficient to give you insight into what was effective and is worth continuing. Or, it may prompt you to ask more detailed financial questions about your business, such as costs, overhead, sales per category or

location, how much of your sales were from new customers, how did you reach your new and repeat customers most effectively?

Another very important piece of information is the profitability of different parts of your business. There's an old adage that 80% of the profits come from 20% of the business. Is this true for your business?

Next Step

Determine where you want to go. This is easier said than done. Objectives need to be realistic and achievable. Objectives need to be concrete and measurable. For example, if the objective is to increase sales 50%, it needs to be stated how that will be achieved. Is it realistic? It depends. If this year's sales are \$240K and the plan is to achieve \$360K next year, this means sales/month on average need to increase from \$20K/month to \$30K/month. What would you need to do to achieve this?

There are a number of possible scenarios that we can plan out and assess. For instance, we could consider dropping low end products/services and concentrating on high \$/sale transactions. What are the implications of this approach? Or, we could go toward a higher volume business and sell through other channels.

Try mapping out your alternatives on a timeline for the coming year and see what picture emerges. It's usually not good for business to shift gears too dramatically without some test marketing and quantification of the costs and benefits. ►

Continued on page 9





Last year's business plan contest winners, Mark Parish and Andrew Jeffery of Specific Surface Corporation, happily accept their \$10,000 prize.

Sharpen your pencils...gather your napkin notes...it's time to write that Business Plan!!! Each year, the WPI Venture Forum awards a \$10,000 prize to an entrepreneur who has written a great business plan - \$5,000 in CASH and \$5,000 in business services. It could be YOURS!

To be eligible, business plans must involve technology-based ventures and describe the development of a new product, application or process in an existing business, or the start-up of a new business. Plans are judged by a panel selected from professional service and advisory groups. The winner will be notified on or before June 2, 1998 and will present his/her business plan at the Venture Forum's June 9, 1998 meeting.

To enter the contest, complete the entry application and mail it, along with your business plan and the \$25 application fee to,

BUSINESS PLAN CONTEST BEGINS!!!

Sponsored by Mirick O'Connell

BUSINESS PLAN CONTEST ENTRY APPLICATION

Applicant Name/Title: _____

Name of Business: _____

Address: _____

Phone: _____ Fax: _____ Email: _____

Date Established/Target Launch Date: _____

Structure: Proprietorship Partnership Corporation
 LLC/LLP

Type of Business: Manufacturing Distribution Wholesale
 Research Service Other

Business Stage: R&D Mode Start-up Revenue
 Producing

Number of Employees: ___ Full-time ___ Part-time ___ In 3 years

The undersigned certifies that the Plan submitted with this application is their

WPI Venture Forum, 100 Institute Road, Worcester, MA 01609. The entry deadline is May 11, 1998. If you have questions about the contest, please contact Atty. Pamela H. Sager at 508-435-8787 or stsager@ultranet.com. Good luck!

Special Invitation For ENTREPRENEURS MENTOR'S DINNER

The WPI Venture Forum invites you to set aside the evening of Thursday, April 30, 1998, to attend a special event. We have arranged for seven successful, local business people to serve as Mentors for small, table-size groups of entrepreneurs. Spend dinner with one of these Mentors and discuss the ups and downs of how to start or grow a company. Find out what it really takes to succeed in business - all in a comfortable, dinner atmosphere.

OUR MENTORS FOR THIS SPECIAL EVENING WILL BE:

- Mark J. Conoby, Vice President of Concorp, Inc. Concorp manufactures and services water treatment systems and process control systems.
- Michael A. DiPierro, President, Baystone Corporation. Baystone is involved in turn-arounds, acquisitions and temporary CFO management assignments. Michael previously owned Polyform Corp. which specializes in custom plastic parts reaction injection molding
- Howard A. Gries, President, Kinefac Corporation. Kinefac specializes in cold forming machines, systems and die spring machinery, turning machines and automated inspection equipment.
- Donald A. Johnson, Member of the Board of Directors and Former Chief Executive Officer, Corning OCA Corporation. Corning OCA focuses on optical and electro-optical components and systems.
- Paul S. Kennedy, President, Kennedy Die Castings. This company makes precision die castings.
- Mark V. Parish, President and Chairman, Specific Surface Corporation. Specific Surface Corp. designs and manufactures compact industrial fibers.
- Edward P. Sayre, President and CEO, North Systems Associates, Inc. This company specializes in high performance engineering and design.

Like our Mentor's Dinner last year, this evening will begin with a short networking session at 6:00pm. Dinner will include a six course meal with beer and/or wine.

Reservations are being taken on a first-come, first-served basis for this limited seating event. To facilitate maximum communication among attendees, a limit of 42 entrepreneurs will participate - six attendees and one Mentor per table. Last year's Dinner was a lot of fun and very interesting, so reserve your spot now by returning the form below.

Yes, please sign me up to attend the WPI Venture Forum Mentor's Dinner on Thursday, April 30, 1998. Enclosed is my check for \$30 to cover the cost of the dinner.

Name _____

Company _____

Address _____

City _____

Here's what they said about our last Mentor's Dinner...
"The real stuff!"
"Innovative"
"Real war stories"
"Learning from the Pros"
"New ideas on marketing"
"Great to speak with successful entrepreneurs"
"Market and start-up information"
"Exchange of ideas"
"Super networking!"

Business Basics

Continued from page 6

CALENDAR TIMELINE - PRIOR YEAR

Jan Feb Mar Apr May Jun

Jul Aug Sep Oct Nov Dec

Key Objectives & Action Plan (e.g., targeted action steps month by month ...)

\$ Estimated cost/month Projected results

Last Step

Make choices and determine your route.

With your timeline summary of the prior year and your projected timeline(s) for the coming year, you can make some choices about how you will use your time and resources. Planning helps you get your ideas out on paper, surface your assumptions, invite other people to review your ideas and assumptions and provide feedback. Planning enables you to make informed choices

and using the timeline enables you to express your plan as an action oriented road map.

To realize the benefits of planning, like exercise, you must do it regularly. We recommend at least quarterly reviews as a relatively painless means of maintaining the plan. Stay tuned for what Carla learns from her action-oriented business planning process.

Jean D. Sifleet, Business Attorney & CPA and Cynthia G. Sechrest, CPA collaborate to solve the problems of their business clients and to help them grow successfully. They can be reached at 978-772-6332. VF

Selling Software Overseas – Part 1

by Julia Dvorko, Program Director, Small Business Development Center,
Central Massachusetts International Trade Program

Selling software overseas? What should you take into account before making an export decision and selecting the markets? Are you doing the right things? These are the questions that often come up during my counseling sessions with software companies - the advanced exporters, as well as the beginners. Below I tried to give a general overview of the major challenges for software companies that are venturing into the foreign markets.

1. Export Restrictions

Apart from the software developed specifically for military use (an obvious case), export restrictions concern mainly software that incorporates encryption exceeding 40 bit key length. Most of the software that incorporates weaker encryption will not require an export license, though the exporter himself has the responsibility to check whether the license is required. The best way to find out is to contact the Bureau of Export Administration (Department of Commerce), which is the primary licensing agency for computer software and hardware. In recent years, the Department of Commerce has undertaken a number of initiatives to ease the export licensing requirements. One new rule liberalized the treatment of the so called recoverable encryption products (items that allow government officials to obtain under legal authority and without the cooperation or knowledge of the user, the plain text of encrypted data and communications). Another recent development is the announcement by the Department of Commerce in July 1997 of the new policy for uses of strong encryption products in the financial services industry.

The new policy will allow, for a two year period, the export of powerful, non-recoverable commercially available data and encryption products, specifically designated to support financial transactions. These include direct home banking software of any key length and other programs used for on-line financial transactions. Once the developers of such software file a commitment to develop recoverable products, export licenses will be granted after a one-time product review. For more information on software export controls, contact the Bureau of Export Administration at (202)/482-4811.

2. Intellectual Property Protection.

This is probably the most serious challenge for the international software industry. Software piracy is widely practiced around the world, and not only in the less developed countries, though they lead in piracy rates overall. Software Publishers Association and the Business Software Alliance, the two leading associations of the software industry, recently commissioned several studies on global piracy. The most recent of them, released in May of 1997, estimated that, of the 523 million new business software applications used globally in 1996, 225 million units – nearly one in every two – were pirated. The study estimated the world piracy rate at 43% overall (significantly down from 49% in 1994). Among the regions, Eastern Europe continues to have the highest piracy rate, at 80%. The lowest regional piracy rate, of 28%, is seen in North America (which excludes Mexico), largely on account of the US having the lowest country rate

in the world (in 1996 at 27%), while in Canada the rate is much higher (it stood at 42% in 1996). Among the countries, the lowest piracy rates, besides the US, are found in Australia, the UK, Denmark, New Zealand and Germany. The worst offenders include Vietnam, Bulgaria, Indonesia, China and Oman (see box). ▶

Continued on next page

Selected 1996 SPA/BSA Piracy Study Results

Regional Rates		The Lowest Country Rates		The Worst Offenders	
Asia	55%	US	27%	Vietnam	99%
North America	28%	Australia	32%	Bulgaria	98%
Latin America	68%	UK	34%	Indonesia	97%
Western Europe	43%	Denmark	35%	China	96%
Eastern Europe	80%	New Zealand	35%	Oman	95%
Middle East	79%	Germany	36%	CIS - less Russia	95%
Africa	70%	Belgium	39%	Philippines	92%
World total	43%	Japan	41%	Pakistan	92%

3. Translation and Localization.

These will be major costs that are often underestimated by the first-time and even the experienced exporters. For many companies, it is becoming more and more obvious that translation often gives a competitive advantage even in the countries where English is widely spoken (such as Netherlands, Sweden and Denmark). Besides, the EU regulations require all manuals to be translated into the language(s) of the importing country. Much was written elsewhere about the importance of finding a good, culture-

sensitive translator, especially for the software itself. These days, however, the hot word is "localization", broadly defined as the adaptation of software to the cultural, social and technical norms of the importing country, a concept that may include translation. Roughly speaking, it can be anything from the conversion of pounds into kilograms to the choice of culturally appropriate visual symbols. For American software, the needed changes will usually be significant, not in the least because so many American conventions are different from those accepted in the majority of the largest markets (Western &

Eastern Europe, Japan, Australia and Latin America). The US, for instance, is one of the only three countries in the world that have not formally adopted the metric system (the other two are Liberia and Myanmar). Those who are selling to Europe know that it can take hours of work just to change the date convention (the Europeans would read 11/10/97 as October 11, 1997). Even for the English-speaking countries, such as Australia and the UK, it is necessary to localize the spelling (as well as the date convention already mentioned). All these difficulties can certainly be overcome, but it is imperative to start planning early and to realistically estimate the costs involved.

See next month for Part 2 of this article.

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¹ *Business software is defined as software that can be used for business purposes. Seven consumer applications, as a result, were excluded from the study. They are recreation, home creativity, home education, integrated, personal finance, tax and reference programs.*

A Case for Speed

Continued from page 3

Intelligent communications also involves driving messages home with such volume and intensity that people ignore minutia and background noise. It is perfectly fine to say things over and over again via different communications channels. With each repetition, each audience will absorb a different piece of information and eventually will have a clear picture of the plan.

Assemble And Launch Small, Fast-Paced Transaction Teams In a misguided attempt at post-deal democracy, some companies spend valuable time trying to get everyone involved in transition management. This desire to be inclusive and achieve consensus often causes more harm than good. As a simple matter of expediency, not everyone has to be involved in every decision. The more people on a team, the more difficult it is to coordinate meeting schedules and arrive at decisions efficiently.

It is better to charge small, highly focused teams with expediting progress on the top value-driving initiatives, team members should represent the best and brightest from both organizations - not just people at the top, but key contributors throughout the companies. Typically these are the people you want most to retain in the new organization.

Remove Organizational Barriers To Economic Value Drivers

Mergers, acquisitions and alliances effect changes in the integration and coordination of activities. To ensure optimal post-deal performance, it is important to define early on employee roles, reporting relationships and the interplay between units and functions in the new operating environment.

Execute Behavior-Based Culture Change

When two groups are brought together in a working relationship, they tend to compete. Each group attempts to demonstrate that its way of conducting business is best, right down to how they order paper clips. This friction diverts management attention from external markets to internal affairs, and often causes the company's market position to suffer. To resolve this conflict, management must model and reinforce desired behavior.

To achieve a cultural integration of two organizations, identify the dominant management behaviors in each of the two companies to determine the gaps between them, and then prescribe what changes need to be made to bring them together to produce the ideal culture. Early and firm decisions to selectively reinforce desired practices and terminate undesired practices will bring about positive changes in corporate culture.

Identify And Deploy Managers To Reinforce The New Culture

The best way to change the culture quickly is to fill the most visible positions in the organization with people who behave in ways that are consistent with how you want the organization to operate in the future. Continuously reinforce this behavior by rewarding those that adopt the new culture. The early adopters will serve as examples of the combined ideal culture.

Retain And Energize Key People The most valuable employees tend to be the most career-minded and often are the first to leave in periods of uncertainty. They usually go to work for competitors and take proprietary information with them. Their departure increases the vulnerability of the company and highlights its weaknesses.

There are three effective ways of retaining the commitment and trust of key people:

- Provide long-term income incentives directly tied to creating sustained economic value
- Provide opportunities to influence the course of the business through participation on transition teams and in ongoing decision making
- Communicate career paths and the development of future career opportunities

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