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The mind grows by what it feeds on. -J.G. Holland

Happy New Year and welcome to the new edition of the Kutztown University Small Business Development Center's *Success Connection*.

The SBDC is making some changes for 2007. The newsletter, along with the Website have received upgrades. We have exciting new workshops that will bring a "high- tech and high-touch" element to our existing workshop offering. 2007 is shaping up to be an exciting time for the SBDC and we hope your 2007 outlook is the same.

Whether this is your first time or your forty third time reading the *Success Connection*, we hope that we have supplied you with some food for thought.



SBDC Helps AREUFIT Keep Business Healthy

January 2007 Success Story ***KUSBDC Success Connection***

AREUFIT Health Services, Inc (AREUFIT) began providing wellness and healthcare services to the Philadelphia community and surrounding areas back in 1993. During the past 13 years, AREUFIT has delivered mobile services and health screenings to several thousand clients and recently has benefited from the help of the Kutztown University Small Business Development Center (SBDC).

Dr. Jeannine Stuart, AREUFIT's president and co-owner, has held a long-time interest in preventive health and wellness. She identified preventive healthcare in the 1990s as a "niche that no one was fulfilling." The AREUFIT staff of health educators, exercise physiologists, registered nurses, massage therapists, CPR and first aid instructors, and paratometric technicians now is filling this niche in unique and creative ways. Blood pressure and cholesterol screenings and flu shots are among AREUFIT's most requested services. The company also offers alternative therapies, including massages, reiki, and reflexology, which are gaining popularity.

Stuart notes that becoming "one of the premiere providers for one of the largest insurance companies in the area" has been a highlight of her business. She is also proud to contribute to the Philadelphia Eagles Youth Partnership, providing the staff and resources to give full eye exams to thousands of the community's students. Stuart and her staff also enjoy the diversity of their clients, who include manufacturers, accounting and legal firms, insurance companies, and service workers.

AREUFIT is particularly busy during the academic school year, open enrollment periods, and sports seasons. According to Stuart, the company delivers most of its services in Philadelphia and its immediate suburbs, but also travels as far away as Harrisburg and Reading in Pennsylvania, and Wilmington in Delaware. The company owns one van used to provide mobile health screenings and wellness services for its clients.

In addition to attending networking events at local chambers of commerce, AREUFIT has taken advantage of free consulting services offered through the SBDC. Business consultant Bud Batcher has shared his expertise in marketing and

SBDC Helps AREUFIT Keep Business Healthy (continued)



AREUFIT Van, above

business development to help Stuart address the effects of higher gasoline prices and insurance on the company's operations. Stuart and Batcher have also worked to improve the company's website, prepare e-mail promotions, survey customer satisfaction, and locate new target markets. Additionally, Stuart has taken advantage of the SBDC's online marketing and strategic planning courses, as well as the interactive business planning tools. Dr. Stuart sees Batcher as a great consultant "because Bud's only agenda is to have my business succeed." he doesn't have his own agenda. He wants my business to succeed."

However, Stuart acknowledges some business challenges. For instance, it can be difficult to educate potential and current clients about the long-term benefits of coordinating their employees' wellness. Many companies consider cutting wellness services when budgets tighten, even though wellness benefits can improve morale and reduce absenteeism, making the employees more productive.

AREUFIT has grown significantly and recently added four employees, bringing total staff to six full-time and ten part-time employees.

AREUFIT Health Services is located on 270 West Lancaster Avenue, Building J, in Malvern, Pennsylvania. More information about AREUFIT is available at the company's website, www.areufithealthservices.com.

The Kutztown University Small Business Development Center provides one-on-one consulting, business planning tools, and free online business courses. Information about these free services is available at www.kutztownsbdc.org.

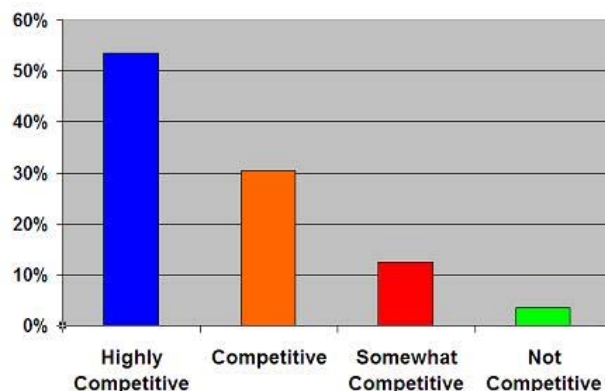


The Pulse of Business is a series of monthly polls conducted at www.kutztownsbdc.org. The SBDC poll results can be compared to The National Small Business Poll performed by the NFIB. The NFIB poll uses samples of small business owners from across the United States.

The poll question for the month of January is:
Over the past 3 years, have you taken one or more steps to reduce the amount of energy your business consumes? [Cast your vote](#)

Last month's results

Through the month of December, we asked visitors to the Kutztown University SBDC Website to tell us how they would describe the competitive climate in their industry. The results are shown below. These numbers closely resemble a poll from the National Federation of Independent Business (NFIB). In a poll from 2003, 80% of NFIB survey respondents described their industry as either competitive or highly competitive. The SBDC poll had nearly identical results.



For an in-depth look at how over 750 small business owners view competition, read the full report from the NFIB on competition at <http://www.nfib.com/object/4240170.html>.



Getting Prospects

By Dan Goldberg, MBA, MHEM

When you have the ability to understand the attitudes, behaviors and communication styles of yourself and others you can begin to see how your interaction with clients and prospects can lead to them feeling good about you and what you're selling.

As you begin to build rapport with clients and prospects, opportunities begin to present themselves. You can get into a position to ask for (and get) referrals.

Referrals come when you have satisfactorily given your client or prospect what they wanted and more.

It is necessary to always keep in mind that people do things according to their own agenda. In other words everyone is tuned into the same radio station WII-FM (what's in it for me?).

You have to recognize and acknowledge your clients' and prospects' expectation level.

The more you do that the easier it will become to make a sale.

As you keep your clients' and prospects' happy you begin to build up a pool of credible personal and professional recommendation sources.

But in order to make people happy you have to get them first!

If you had to purchase a bandage for a bleeding wound, you might buy it from a jerk if your blood was spilling on the floor, but you'd feel so much better buying it from a compassionate person who took your pain to heart.

Now suppose your wound wasn't visible to the salesperson but they knew how to find out about it and enable you to realize that you should also do something about it. Wouldn't you be willing to buy something to get ride of it?

Well getting prospects and clients to buy is all about making them aware of their distress and in some cases their potential pleasures.

Once you understand a person's distress you begin to take control of the selling process.

How does someone find those distresses?

By asking questions and listening to the answers.

Everything you need to know will be told to you if you just ask the right questions and listen to the responses.

The salesperson should only talk thirty percent of the time, at most. That leaves seventy percent for your prospect or client to tell you everything you need to know.

If you learn how to listen the sales gates will open.

There are certain questions that help you get the answers you need.

Those answers will even tell you whether or not you have a “prospect” or a “suspect” on your hands, which will enable you to continue or go on to the next person.

You’re better off knowing that someone is a “suspect” at the beginning of the process than wasting time and finding it out later.

People don’t like to be sold but they do like to buy.

And everyone has his or her own agenda. They are NOT going to buy just because you want them to. The more you force, the more you will push them away.

For many salespeople getting prospects means many things.

It may be getting referrals from friends and/or satisfied clients, cold calling, joining networking groups and organizations, advertising or all of these methods.

No matter what it is, every salesperson needs to be able to easily and simply explain what he or she does without seeming like they’re selling

All you have to do is pretend that you are advertising on TV or radio and have a limited time to tell people how you are. Write a short and simple explanation of what you do without sounding like a salesperson and you’re on your way.

Something like, “We help companies increase their efficiencies and profits by enabling their salespeople to have more effective sales skills and techniques so that they close more often and in less time, while building solid relationships with their clients and prospects...would you know anyone who needs to enhance those skills?”

No heavy selling, but a strong message none-the-less.

You can even use that self-description in your cold calling.

There are plenty of salespeople who make their living as a result of cold calls. For these people every call is a means to an end. As an old friend once told me years ago “The average sale I close is worth \$2,000.00, I’ll make 100 calls a day for 15 contacts for 2 appointments that may result in one close, I’ll take those odds everyday of my life!”

And he does extremely well for himself.

Of course by now he doesn't have to make cold calls because all those old cold call clients have become very good referral sources for him.

But like he says "It works!"

So, looking at it from the angle of one thousand calls a month could put the cold caller on the road to doing quite well.

By organizing time spent on prospecting (cold calls, networking, speaking, etc.), using open-ended questions, listening intently, addressing business distress, and asking for referrals, you can build a book of clients that will create income for years to come.

Dan Goldberg is a keynote speaker and the President of Dan Goldberg Consulting, L.L.C., a training, coaching and business development firm located in the Philadelphia, PA area. He is the author of the book "Stand Back a Second, Just don't fall off the edge," and "The Six Steps to Solid Sales Success" and "The Seven Elements of Successful Management" programs and audio tape. You can contact him at dg@dangoldberg.com, visit his website at www.dangoldberg.com or reach him at (215) 233-5352.



The Low Down On Local Internet Searches

By Lynn VanDyke, Internet Business Consultant

When you have a business website, you'll want to learn just how people are searching for your business at the search engines. Make sure that they find you as easily as possible by being ranked high for local Internet searches. Thankfully, this isn't difficult to do when you have the right tools.

When you're looking for a certain product or service, you generally type in exactly what you need – i.e. web hosting. Once you get a list of the web hosting providers in the results, you tend to choose the first few results, right?

Well when you want your local business to be found on the first page of Google, you need to know what the search engines are looking for. Your site not only needs to be optimized for your trade, but it must also be optimized for your local town, city, or county.

Here is a quick list of the things that will make you more popular on local internet searches:

- Related keywords and keyword phrases (including your town or county)
- Relevant website content
- Popularity of your website (your traffic count)
- How well connected you are to other websites on the web via linking

While this list isn't exhaustive, it does help to create some new ways of looking at your business website and places where you can make improvements.

Talking about the content first, you need to make sure that the words that your customers are searching for (keywords) are located on your site. While it used to be easy to just add as many of these keywords as possible and get a higher ranking, the search engines caught onto this keyword stuffing and started to change the way that they look at websites.

While keyword based content is still important, you'll want to limit your keyword density to no more than 5%. This allows you to then create relevant content that will get your website noticed. Just keep in mind that you want to be optimized for your local town and your industry.

Try to include articles and information that your customers would want to find when they are looking up your product or service. This will show that your website is geared toward your customers and not just the search engine. Be real. Give excellent and informative information for your visitor.

Of course, the more people you have coming to your website, the better your ranking. This popularity shows that people that were searching for certain information, more often than not, went to your site over others – leading the search engine to believe that your site might be the right choice for their first page of results.

Adding relevant links to your website will also show your site's relevance and get you more noticed in local Internet searches. The engines want to know that your site links out to other important and similar sites. It also wants to know that other industry sites link to yours.

The more websites that link to you... the better. This shows the search engines that your business website is an authority. Imagine being a fitness professional and having 3000 other fitness websites linking to your site. Google will take notice!

Your website is the key to your business' survival. In order to get to the customers that you want to reach, you'll need to learn these 'rules' of the Internet game.

Look at your website as a business. It is a powerful marketing machine that generates loads of free, targeted traffic. Learning to position your business at the top of local Internet searches can take some time to master. Either invest the time and learn the process yourself, or hire a webmaster with a proven track record of local business success.

About the Author:

Lynn VanDyke is a highly in-demand webmaster. She builds successful websites for local businesses wishing to increase traffic and generate more revenue. To learn more about Lynn and her services please visit <http://www.LynnVanDyke.com>

Kutztown SBDC News

New for 2007, KutztownSBDC.org Member Services

The Kutztown University SBDC has introduced a new Membership Services feature to its Website (www.kutztownsbdc.org).

The following products and services are available to all individuals.

- [E-Referral Network](#)-When you're looking for someone new to do business with, it's helpful to have a quality referral. Join our E-Referral Network of over 500 businesses and begin networking with businesses and consumers in south central Pennsylvania. ***Available to existing businesses in Pennsylvania**
- [Free E-Newsletter](#)-Our free monthly e-newsletter, Your Success Connection, is a great resource for small business owners, potential business owners, and business people from the states and around the globe who want to stay on top of current business issues.
- [Workshops](#)-Presented by skilled professionals, SBDC workshops educate entrepreneurs about innovative new management procedures and key business issues. These learning opportunities are presented at a variety of locations for a small fee.
- [Free Online Learning](#)-Our E-Learning program benefits small business owners, recent owners, or start-ups. Online courses are self paced and available 24 hours a day, 7 days a week. Topics include: Accounting, Finance, Government, Legal, Marketing, and Sales.
- [View your online courses](#)
- [Free Web-Based Tools](#) include: a template-based, interactive business planning tool, an easy to use question-based strategic planning tool, a Free On-Line Forum, the best way to get answers to your questions, an outstanding Entrepreneur's search engine from the Kauffman Foundation, a nationally based Foundation provides insights and videos on Insurance and a stock market monitor. ***Some Web-based tools require a separate Account setup.**

Please visit www.kutztownsbdc.org and become a member today.

Live Workshop Schedule

The schedule for the Kutztown University SBDC's 2007 Live workshops is now available.

Click here to view the schedule in your area:

http://www.kutztownsbdc.org/about_workshops.asp

Webinar Schedule

The SBDC is introducing 2 new Webinars for 2007. As the New Year begins, our new workshops will be delivered live over the Internet using web-conferencing software. The courses are interactive and utilize audio, video, power point, and live demonstrations.

The following courses are available as Webinars:

Available Starting January 17, 2007

The First Step *Online*

This live online course uses WebEx technology to deliver an interactive workshop experience over the internet that will cover:

- Defining your concept of business
- Choosing a business structure
- Naming and locating your business
- Introduction to the Business Plan
- Marketing Fundamentals
- Financial Management, which includes cash flow and financial statements
- Sources of money

Available Starting January 23, 2007



Like a wise man once said “the only constant is change” Confucius. This is true for business planning. This new three part business planning Webinar, based from one of the best selling books for small business “The Art of the Start”, will get you ready to make your pitch to an investor by meeting online with a team of SBDC business coaches, experts and advisors. The three Webinars will be supplemented by self paced online learning that will be customized to your own individual learning needs. The Webinar will utilize integrated online tools to facilitate the business planning process. Kutztown University Graduate Students will be available between Webinars for coaching sessions on the materials and topics covered as well as any technical issues. At the end, you’ll have your business plan model summarized on ten PowerPoint slides that will give any investor what they need to know to make a decision about investing in business. In addition, you’ll be well on your way to building on the specifics needed for a business plan and you’ll have a first year cash flow developed to help you define how much money you really need to launch the business. These Webinars are limited to 15 participants to maximize the interactivity during the session. Participants will have time to get their individual questions answered and the sessions will be archived in case a participant is unable to attend a session or for future reference.

Making The Pitch: In this interactive Webinar you’ll learn the ten key secrets that bankers and investors really want to know about your business before giving you the time of day to discuss your business plan. Using examples, we will show you the steps needed to develop these ten secrets into a PowerPoint presentation to make your pitch to any potential investor about your business. Topics covered include: the idea, the business model, the customer, the competition, the message, the sales approach, the inner workings, the management, the money and the next steps.

In addition, prior to participating in the Webinar you and fellow Webinar participants will take self paced learning, that will be recommended for you to read and experience prior to meeting each other in the Webinar and online forum for discussion with the team of business coaches. At the end of this Webinar you’ll have the knowledge, skills and focus to determine if your business has a chance to succeed. Recommended online prior learning: The investment class

Developing The Plan: At the start of this second interactive Webinar you’ll be given an opportunity to make your pitch to the other participants if you would like to take advantage of this opportunity. Now that you know that your business model makes sense to someone beyond family and friends you are ready to start building your business plan by filling in the details. Topics covered include the product and pricing, market research, competition, marketing schedule, the location, structure and risk and required funding. At the end you’ll know where to focus your research efforts rather than going through a canned process for writing the business plan. Recommended online prior learning: Small BizU business planning

The Numbers: During the start of the third interactive Webinar you’ll learn a simple approach to using our online business planning projection tool to make it easy for you to project your sales and estimated costs for operating the business. After taking a self paced online course dealing with developing financials you’ll have the confidence to talk about the numbers dealing with your business with any investor or banker. The simple financial model, developed for non business people, will help you develop a pricing structure, develop a sales forecast, develop a marketing and operating budget and estimate your salaries and wages. At the end you’ll have the foundation for a set of financials to take your investor that will show them clearly your estimated revenue and expenses. And you’ll be ready to receive one-to-one free confidential consulting from an SBDC consultant. Recommended online prior learning: Understanding the financials, accounting 101.

Leadership, Teams, and Communities of Practice

by John W. Hammond, P.E.

Leadership

Numerous horror stories have been reported in the literature describing the fate of organizations that are either *over-managed* or *over-led*. In each story, certain factors seem to pervade.

The fates of many *over-managed* organizations are usually a result of “bleeding to a slow death of a thousand cuts.”

In less dramatic terms, over time these *over-managed* organizations slowly experience *either*:

some form of *disproportionate* overhead cost growth, as successive layers of management are added to *drive* the organizations’ resources in the “politically correct” direction, determined by a Senior Management Team that becomes increasingly oblivious of their own loss of client focus and fundamental business basics, as they struggle (with the GROWING Stresses of their PREVIOUS Success) to reinvent the wrong resources in accordance with their mistaken view of the future, *or*

or a similar overhead cost growth, due to an even more basic challenge - to deal with the rising cynicisms and passive aggression of the organization’s resources, reacting to Senior Management’s overbearing management style as it pervades through the rest of the management of the organization to *drive* these resources to close the gaps in performance (“the whippings will continue until morale improves” becomes a favorite restroom expression).

Alternatively, the fates of these *over-led* organizations occur usually more rapidly and dramatically. In these organizations, the Senior Management (“Leadership”) Team builds a strong appeal over time with the organization’s resources, due to their charismatic style and “fortunate” early successes. This style and these successes inspire an even greater sense of loyalty, building essentially a “Midas Touch” philosophy and “laid-back” approach to business – *the tendency to inspect what is expected is pushed aside in the spirit of “organizational fraternity.”* *Day-to-day operations become naively routine (Stresses of Success are low), until unexpectedly, a major risk event occurs, and the organization runs off the cliff called bankruptcy.*

While, admittedly, these examples are overly simplistic, and in many ways, hyperboles, they do demonstrate some of the key **cultural** aspects of each extreme, as well as some the basic root causes and corresponding proximate causes for failure. In reality, many organizations may have “pockets” within them that may exhibit to different degrees of each of these extreme cases. As such they provide some insight into possible early symptoms to be on the outlook for.

While, in these two descriptions, the causes of business failure are dramatically different – in fact, at opposite ends of the spectrum of possibilities – the results are the same. *It goes without*

saying that in either of these extreme cases, after the fact, these organizations are no longer Sustainable, and their Enterprise Values have evaporated.

The above examples may seem simplistic in an academic sense, but then next question becomes – “If this happened in your organization, what could you do about it?”, or possibly even more importantly, “**How do you keep this from happening in your organization, to begin with?**”

The answer to this question is not so simplistic, especially when having to deal with the NORMAL stresses of the day at the same time – in other words, now what do you do!

The practical answer lies in **starting early to build a sustainable organization – one that minimizes the potential for the “seeds” of either of the extremes to ever take root.**

John Kotter, PhD, a professor in Harvard University’s business school who has studied the science of leadership, has said that “today’s reality is that thousands of companies today are *over*-managed and *under*-led, not because managers lack charisma, but because far too few executives have a clear understanding of what leadership is and what it can accomplish. Without such a vision, even the most capable people have great difficulty trying to lead effectively and to create the culture which will help others to lead.”

Further, in the 21st century, the sustainable organization will exhibit a balance of leadership and management skills and the capability of dealing with an increasingly competitive and fast-moving economic environment. *The sustainable organization will have all its resources aligned with each other, and empowered to create Enterprise Value, (EV), for the organization and its stakeholders. These intangible resources will be motivated to optimize their performance – in response to the organization’s culture of balance of “enlightened” leadership and “effective” management.*

How does an organization **build** a culture of balanced leadership and management?

To answer this question, **the organization must first answer the question – “What do we want the resources to do?”**

Teams

At any time in most organizations, multiple teams are in existence and busy on some assignment – ideally, related to some aspect of that organization’s Mission, Vision, and Core Values. Also, ideally, those teams, through their efforts, are creating value for their “clients” and other stakeholders.

For each Team, certain basic questions can be asked:

1. Do they understand the purpose of their activities and the expected outcomes?
2. Do they know who their “clients” and stakeholders are?

3. Do they understand why these outcomes are important to their “client” and to their stakeholders – how “value” is defined?
4. Do they understand any other key performance expectations, that their “client” and their stakeholders have, for how their activities are to be accomplished, e.g., budget/costs, schedule, safety, etc. – again, how “value” is defined? (What performance and outcomes they are accountable for...)
5. AND MOST IMPORTANTLY – *DO THEY CARE?*

One simple definition of “*effective management*” is - the ability to get things done “right.”

Similarly, a simple definition of “effective leadership” is - the ability to get the “right” things done.

For Teams in organizations with “effective management”, the first four questions above can probably be answered – “Yes”, although the answer to the fifth question is uncertain.

For Teams in organizations with “effective leadership”, the answer to the fifth question will probably be - “Yes”, although the answers to the first four questions are uncertain.

In a “*sustainable*” organization, which is successfully growing its long-term Enterprise Value, the answers to all five questions are a resounding – “**YES**”.

Thus, one key differentiator of “sustainable” organizations, in comparison to other organizations, is that the Teams in these organizations are being effectively managed and led, simultaneously - and it happens naturally, because of their culture.

In other words, *Teams in “sustainable” organizations* are more likely to do the “right” thing, “right”, and do it the first time. Obviously, in doing so, these organizations realize certain direct benefits from their Teams’ activities, including – lower costs for *not needing* “extra” supervision by additional management effort, lower costs for *avoiding* possible client problems due to dissatisfaction, and consequential lower costs of future sales and for increased efficiencies and productivities, etc. – all of which results in growth in Enterprise Value.

Teams in sustainable organizations understand their “Hedgehog Concept”- where the RELATIONSHIPS between – what they are doing, how well it is being done, and how much they care that what they are doing is done well - ARE IN BALANCE!

Unfortunately, in too many of today’s organizations, these relationships are out of balance!

Communities of Practice

Teams come in all shapes and sizes; they exist for any number of purposes, and for durations that can last for a day or less, to durations that last for many years. The structure and formality of a team can vary from only a few people, operating face-to-face in one location and without written procedures, with a very limited, routine goal and short time frame, e.g. a construction crew assigned to frame out a house, to many thousands of people, dispersed in multiple locations

around the world, *with a very complex, innovative, multi-year goal*, e.g. the NASA Apollo organization formed to put a man on the moon.

Obviously, the **proper complexity** of the structure and formality of the team depends on certain factors related to the “Mission” and “Core Values” of the team, e.g., the client’s expected outcomes related to the product or service, as well as other factors related to performance expectations and risk, e.g. the degree of innovation required to perform the assignment and the team’s level of experience. **Neither** the construction crew nor the NASA Apollo organization has the right complexity for the other’s assignment. **However, if composed of individuals from a sustainable organization, both will understand their OWN “Hedgehog Concept” and be highly motivated to succeed.**

A Community of Practice (CoP) consists of a group of people who share a concern, a set of problems, or a passion for a topic, and who deepen their knowledge and expertise in the area by interacting on a regular basis.

In their “purest” sense, CoPs function based a distributed leadership and management philosophy, and with a minimal command and control structure – they exist naturally as a result of the “passion” of the individuals involved and the benefits that these individuals naturally receive as a result of “membership” – in a sense, their purpose for existence is the pursuit of their “Hedgehog Concept” on a voluntary basis.

In a “practical” sense, *a key to the success of a CoP is to produce tangible business benefits for its participants and their organizations, and hence derive the support of the management of the participants.* Typical *short term benefits* may include: enhanced short term profitability, an arena for problem solving, improved quality of decisions, more proactive perspectives on problems, reduced time and costs, and improved risk taking. Typical *long term benefits* may include: enhanced sustainable profitability and enterprise value, ability to develop and execute a strategic plan, capacity to develop strategic options, retention of talent, optimization of key tangible assets’ performance, increased knowledge development and capacity, sharing best practices and performance benchmarking, knowledge based alliances, improved innovation capabilities, etc.

CoPs may go by many names or acronyms, e.g. “The CEOs’ Roundtable” (for networking *between* corporations and seeking best (Business and entrepreneurial) practices to bring back to their individual organizations), “GeoCon” (a group of Geoscientists, *within* an organization – at one or more locations - seeking updates in the innovation of their technical expertise), and the “Project Management Institute” (for PMs from multiple organizations, desiring to network and to nurture their professional expertise).

In addition to these traditional examples of CoPs, which in many ways are “fraternal” groups, many other examples exist of “quasi-CoPs” that are more “management directed”, in terms of their intended purpose and benefits (their “Hedgehog Concept”), and yet many of the features and other benefits of the traditional CoPs are still manifest – such as shared Best Practices, Lessons-learned, and informal networking. Examples of these quasi-CoPs include – “Senior Management Teams” (the CEO and his/her direct reports), “Market-sector Business Teams” (for example, the “Federal/DOD Business Team”), “Client Business Teams” (for example, the “HP Business Team”), “New Business Initiative Teams” (for example, the “Facility/Infrastructure

Redevelopment Initiative Team”), and “ ‘Organizational Development’ CoPs” (for example, Kotter’s “Guiding Coalition for Leading Change” in an organization).

One last point should be made regarding the benefits of CoPs – generally, these “groups” exist for a focused purpose and to produce an intended benefit for both their members and the organizations in which the members administratively reside; if properly conceived and administered, this purpose and focus could be considered their “Hedgehog Concept.” ***CoPs are entities of convenience in an organization - they exist only as long as needed and as long as they are producing value.*** Once their purpose is accomplished and the value realized, they can either be redirected to a *new* purpose and benefit, or simply disbanded with little impact of the parent organization(s). ***In either case, within a typical organization, and especially within a sustainable organization, if properly conceived and administered, their cost/benefit ratios are very low and they are a very efficient and effective “CHANGE TECHNIQUE” for introducing innovation and FOR OPTIMIZING THE PERFORMANCE OF THE ORGANIZATION’S INTANGIBLE ASSETS.***

Protecting Your Business With Insurance

by Michael J. Fischer, CLU, ChFC

The three “Ds” – death, disability and divorce – may be the biggest risks for any privately owned business.

If a business has more than one owner, any one of these three can put all owners at risk. If a business owner dies, his or her share of the business may go to heirs that the other owners would rather not have involved with the business. In case of divorce, partial ownership may go to an embittered spouse. A disability may keep an owner from contributing to a business while continuing to benefit from ownership.

A buy-sell agreement, which creates a means for transferring ownership shares in a business, is typically used not only to protect against these risks, but to provide an exit strategy for whatever reason an owner leaves the business. The buy-sell agreement dictates when owners can sell their interest, who can buy it and what price they will pay.

Financing the purchase of an owner’s business interest is, of course, key to the success of any buy-sell agreement. Even if a business has sufficient cash flow to purchase an owner’s shares, it is probably not the best use of capital, which could instead be used to help the business grow. Borrowing the money is also an option, but the business may not qualify for a loan and, even if it can, its borrowing capabilities may be put to better use helping the business grow.

Many businesses choose to fund buy-sell agreements with life insurance. Other than the cost of annual premiums, life insurance has no impact on business finances. When an owner dies, the death benefit can be used to purchase the owner’s interest from his or her heirs. When cash-value life insurance is used, the cash value may also fund the buyout in a divorce settlement. Disability insurance can similarly be used to fund a buyout in case an owner becomes disabled.

Cash value can also be used to fund a buyout if an owner retires or leaves the business for other reasons.

Types of Agreements

Two types of buy-sell agreement are available – a cross-purchase agreement and a redemption agreement. Using a cross-purchase agreement, owners take out life insurance policies on each other’s lives. Using a redemption agreement, the business purchases life insurance on the lives of its owners and is named as the beneficiary of the policies.

Cross-purchase agreements. The cross-purchase agreement is most commonly used because of its tax advantages. It allows the family of the deceased owner to have a tax basis equal to the fair market value of the deceased owner’s stock at the time of death, which eliminates income taxes that would otherwise result from the sale. The stepped-up basis can also reduce future income taxes if surviving shareholders later sell their interests.

In addition, because the deceased is not the owner of the life insurance, the death benefit is not included in the estate of the deceased business owner. Because proceeds are paid directly

to surviving shareholders, the death benefit is not subject to the corporate alternative minimum tax (AMT) or to claims of corporate creditors.

Stock redemption agreement. When a business has many owners, a cross-purchase plan can be difficult to administer, since each owner buys insurance on the other owners. It would take 20 policies, for example, to fund a buy-sell agreement for five business owners.

A cross-purchase plan also creates inequities because young, healthy owners may have to pay higher premiums to insure older owners.

The stock redemption agreement is easier to administer because the business owns all of the policies, so only one policy is needed per owner. In addition, the corporation absorbs the differences in premium costs among shareholders.

Conversely, the stock redemption agreement is not as advantageous for tax purposes. While the corporation does not have to recognize income from insurance proceeds, it must record the impact of the transaction on earnings. In addition, when an owner's shares are purchased by the business, the remaining shareholders do not get the benefit of a step-up in basis. As a result, when their shares are sold, taxable capital gains will be greater.

Practically any multi-owner business can benefit from a buy-sell agreement funded with life insurance. Before determining which agreement is best for your business, though, it may be best to consult with your financial and tax advisors.

About the Author:

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