

# Managing Your Business

A newsletter for small business owners

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## Infrastructure? – What's That?

by Bob Vinson

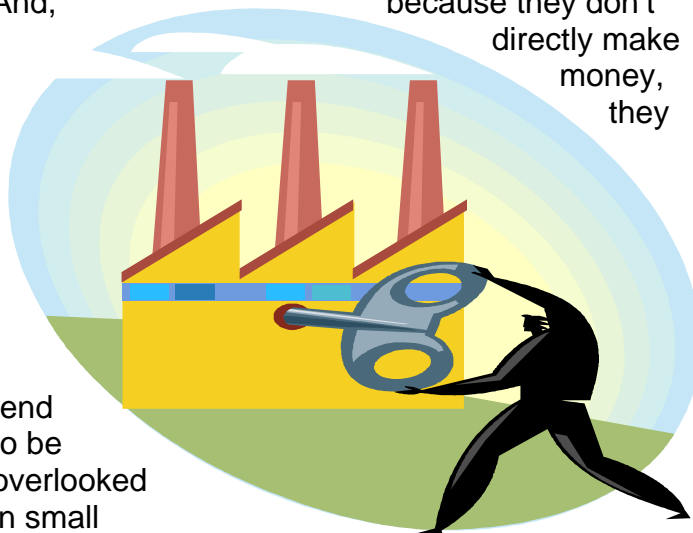
One of the most neglected portions of business among small business managers is that of the business' infrastructure.

"What's that?" you ask. My point exactly.

Infrastructure is all those processes machines, people, units, that don't actually directly make you money. Overhead. Cost centers.

And,

because they don't directly make money, they



tend to be overlooked in small

businesses in terms of staffing, budgets, training, operating plans, capital investment, etc.

How many businesses do you know that staff their IT departments part time from the local college's graduate department, or hire a bookkeeper/secretary/receptionist/... instead of engaging a professional accountant?

This lack of attention and attendant low performance of infrastructure has several impacts on the business.

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## What Can a Board Really Contribute?

by Bob Vinson

Many business managers consider a board of directors to be an unfortunate circumstance of the company's operations. Especially those senior managers who must, by law, report to and consider the demands of the directors, sometimes feel constrained and circumscribed by the authority and conservatism of a board.

In most cases, during the start-up process, owners and entrepreneurs choose board members from among their friends and family. They want a board that they can trust, not only to support their decisions, but to help maintain their control over the business and to safeguard the assets of the company. This approach seems to work fairly well in the chaotic early phases of a business. However, as businesses grow, owners and managers need more than just loyalty from board members, especially when the company becomes more broadly owned and the board begins to represent a larger share of non-participating owners (stock holders).

So what are the things that businesses should expect their board members to do for them and what personal capabilities should they consider when selecting new members? We've identified six capabilities and contributions that board members can (and should) bring to a business.

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## A Word from the Owner

Bob Vinson

Business Advisor Accredited  
by The Institute for  
Independent Business



# Letters to the Editor

## The Global Future of Small Business?

One of the big questions regarding business among those of us who study such things is: "What is the future of small business in the increasingly global economy?"

In 1997 the MIT Initiative on Inventing the Organizations of the 21st Century published "Two Scenarios for 21st Century Organizations: Shifting Networks of Small Firms or All-Encompassing 'Virtual Countries?'" (currently available at <http://ccs.mit.edu/21c/21CWP001.html#4a>) in which they envisioned two possible scenarios for the future of business organization globally.

In the first scenario large multinational corporations will disappear to be replaced by networks of small, facile, skills-based workgroups that constantly align and realign into larger groups depending on work requirements.

The second scenario: "Virtual Countries" "...posits a world economy dominated by large conglomerates which operate globally across a number of industries." There are significant implications in either case for small businesses.

It occurred to us that this would be a good time to turn to you, our readers – all experienced small business owners and/or advisors to ask your foresight on this issue. Go to our website ([vinsonandvinson.com](http://vinsonandvinson.com)) and click on "**Survey: The Future of Small Businesses**" to make your voice heard. We'll tabulate your entries and publish the results in our next issue and on our web site.

Dear Editor:

I have enjoyed and taken value from my copies of "Managing Your Business" for the last couple of years. Can't you publish more often? Once a quarter just doesn't give me as great a boost as it might if you would publish separate articles all through the year.

And what about a blog? Most advisors have already started blogging. However, your web site doesn't mention anything about it. You know that most of us younger business people hang out a lot on the internet and we like to have things moving along at a rapid pace.

Sincerely,  
Clive Barnes

*(Clive: Thanks for your kind words and loyalty. We have discussed blogging and other forms of instant communication. However, our intent in "Managing Your Business" is to identify critical business issues for small business and to bring to bear thoughtful and balanced analysis. At this point, we're not convinced that more frequent or more spontaneous methods would support that intent. However we're still considering it. If any of our other readers would like to see some other form of publication, please let us know by emailing [administrator@vinsonandvinson.com](mailto:administrator@vinsonandvinson.com).)*

Letters to the editor should be sent via email to:  
[administrator@vinsonandvinson.com](mailto:administrator@vinsonandvinson.com).

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### **Loss of Management Control**

A business' most important source of management information is its financial and managerial accounting systems. Managers cannot manage effectively without accurate and timely knowledge of the company's financial and operational events and trends. Decision making becomes guessing and acting on hunch. Managers don't spot adverse trends in time to take effective action and opportunities either are not taken in time or never become visible.

Inadequate or no performance management systems allow poor performance, both personal and organizational to go uncorrected or even to further degrade.

### **Loss of Effective Communication**

Good communication is essential to the effective operation of a company. Communication between the management and the workers, communication between the company and its customer, communication among various working groups within the company, communication with creditors, communication with suppliers. Telephony, email, document production, document management, and the internet are the primary supporting infrastructure processes in most cases. If these processes do not operate effectively, communication breaks down.

### **Low Worker Morale**

Most workers take pride in their jobs and in their company. When the business is professionally run and presents a capable and confident face to the world, workers feel good both about the company and about their association with such an organization.

Unfortunately, when a company does not present itself in as professional and competent, workers tend to feel less enthusiasm for their work and for their association with the company. Morale declines.

As morale declines, work effort also declines.

Much of the presentation of a company to the public takes place through the operation of infrastructure processes: telephone, web sites,

presentations based on company information and data, emails, and so on. When these things don't measure up to employee expectation, workers start to lose heart and the will to excel.

### **Loss of Profit**

All these factors, symptomatic of mis-management of infrastructure processes, lead to declines in company revenue and profit.

Declining worker morale leads to flagging worker effort and increased labor costs and losses from declining work quality.

Loss of effective communication leads to misunderstandings, possible misrepresentation, and loss of customers and suppliers.

Low worker morale contributes to low quality and low productivity.

So, how important is it to have a well-managed and effective business infrastructure? Decide for yourself.

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("What Can a Board Really Contribute" – continued from page 1)

### **Maintaining Strategic Focus**

In its role of representing the business ownership, the board must have the final say on and be the custodian of the business' future. While it may not be the task of boards to actually produce the company's strategic plan, it certainly is the responsibility of the board to approve and support it and ensure that the path chosen is feasible, that the company has or can acquire the resources to achieve the goals it sets forth, and that the expected result is one beneficial to both the company, its ownership, and its stakeholders.

Consequently, the board should contain or have at its disposal the experience and talent to recognize and evaluate strategic issues, identify and evaluate likely outcomes, and identify and evaluate the business' capabilities (or lack thereof). And, it must have the will to maintain this strategic viewpoint across time and in the face of inevitable conflict.

### **Recruiting Top-notch Talent**

If your board members are well-connected within  
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**(“What Can a Board Really Contribute?” – continued from previous page)**

the local or regional business community and especially within your industry, they will know or and be acquainted with the top managers and experts. They will be in a position to advise and assist you in seeking out the top talent in the industry both in the managerial and expert ranks. Nothing is quite as important to the success of a business as the quality of its employees.

### **Facilitating Business Relationships**

Just as they are acquainted with individuals in the appropriate business arenas, so should board members be acquainted with businesses. Its relationship with the businesses around it is probably the second most important factor that helps determine and enterprises success.

Suppliers, customers, co-producers, regulators, all have great influence on a business’ success whether financial, social, or political.

Electing board members that can maneuver in these arenas and are familiar with and work well with the various entities therein can produce substantial positive momentum and contribute greatly to the business successful progress.

### **Lending Personal Competencies**

When selecting board candidates many companies look to former executives from within their own industry. It’s reassuring, and can be valuable to acquire operational and financial knowledge specific to ones’ domain in this manner.

On the other hand, many, once electing or appointing an industry expert to their boards, never use the knowledge that the member has built up over years of experience.

If you are lucky enough to have an expert on your board, make use of his experience and wisdom. Involve him in tactical planning and ask his advice on difficult short-term issues.

### **Balancing Short and Long Term**

While it is the responsibility of the board and the company top executives to prepare the company for the future, it is also the responsibility of the board not to lose track of the present. The board members must be involved in present activities

sufficiently to ensure that the company achieves results in the present that will support future goals.

Conversely, if the goals set forth by the board for the future are not achievable because of current deficiencies then the board has lost track of its current operating environment and is likely to lead the company into disaster.

### **Succession Planning**

Finally, many analysts consider that the primary responsibility of the board is to select and groom a successor to the current executive.

Very few businesses have a succession plan, whether it is the selection and grooming of a follow-on executive or the identification and planning of an exit strategy.

The board, being the major representative of the business ownership, should have the capability of looking beyond current management to the maintenance of the company assets and leadership in whatever beneficial form.

Unfortunately, most owners or executives choose board members based on political allegiance and expected loyalty or accept members posted by stockholders and stakeholders as hindrances to be avoided and ignored, or, even worse, as adversaries in the struggle for control.

In doing so, they squander a chance to form and utilize a powerful business asset.

Just as the wise manager is constantly recruiting valuable potential employees, the wise executive is constantly identifying and recruiting potential board members who can bring to bear outstanding capabilities in each of these six areas.

In this way, the board can become a powerful force for accomplishment of the business’ goals rather than being a hindrance to success.



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*Helping small business owners succeed*

# Common Sources of Financing for Small Business

by Jeff Schein

The choice of financing is an important determinant of whether a product reaches the market, or whether an existing business can survive. The choice of financing is an important part of being an entrepreneur and business owner, and the ability to raise cash when you have no or limited history takes skill and creativity. There are a number of sources of financing. The suitability of the alternatives depends on what stage you are at, and will change as the company matures from stage to stage. The following outlines the most typical forms available.

## Yourself, Family and Friends

The most obvious and common start is for people to self finance. That means they either draw down on their savings or they use personal debt such as credit cards, credit lines or equity mortgages to finance their business. Family and friends are often used as a source of financing. Although they are not always in a position to properly evaluate the business venture, family and friends have long-time relationships and experience with the entrepreneur and are knowledgeable about his/her reliability and ability.

## Strategic Partner

Strategic partners can not only provide a source of financing, but often they can provide an area of expertise that the entrepreneur does not bring to the table, such as operational or marketing skills. Naturally, the pitfall of a partner is that you do not maintain full control over the company and that sometimes there is a falling out between the partners. So it is important that you do your homework and choose your partner carefully.

## Angel Financing

Angles tend to be freelance financiers interested in loaning smaller amounts of money, say between \$50,000 - \$500,000. They can often provide the seed capital required to develop an

idea to get to the point where a firm can obtain formal financing. Angel investors will also invest in growing companies that may have a strong revenue base, but are not yet established enough to get bank or other financing. Another benefit of Angels is that they can bring a lot of experience and industry contacts to the table.

## Venture Capital

When firms approach venture capitalists, they are generally developed to the point where a venture capitalist can add value. The venture capitalists will generally sit on the board of directors, provide

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expertise and provide funding based on the attainment of milestones. They are generally interested in firms that can generate rapid growth - and returns - over a few short years; your time horizon is generally 3-8 years.

## Trade Credit

One of the largest sources of short-term financing, trade credit occurs whenever you purchase from a supplier but do not need to pay for the merchandise for 30 days (or whatever the terms are). Trade credit can be expensive if you are foregoing discounts, but a new firm may not have much of a choice.

## Factoring

Factoring is also a popular source of financing for  
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growing firms. When you generate a receivable you may sell it to a factor who will then collect the receivable for you. Typically, you will get between 75%-90% upfront for the receivable and the remainder when the factor collects, less a fee.

### **Asset Based Lending**

Asset based lenders will lend to businesses that lack sufficient cash flow to support unsecured financing, but have sufficient assets that can serve as collateral. Typically, the assets are accounts receivable and inventory, but can be equipment or other similar assets. The lender relies on the assets to repay the loan, not the cash flow of the firm. Fast growing firms who cannot get sufficient financing from a financial institution will be a typical client of an asset based lender.

### **Mezzanine Financing**

Mezzanine financing is subordinated debt, a type of hybrid between senior debt and equity. As Mezzanine financing is typically high risk, it can be expensive. A typical target company generally has been in business for a number of years and has an established revenue base and positive cash flow stream. Often, a company may have reached its maximum level of financing from a lending institution and will obtain mezzanine financing to bridge the gap and finance their growth. The Mezzanine financier will subordinate its debt to the main lender.

### **Banks**

By the time a firm can approach a bank they usually have been in business for a couple of years, have developed solid revenue, are earning profits and have a reasonable balance sheet. The bank will provide daily operational financing as well as long-term financing. Generally the cheapest form of financing, it can also be the hardest to get.

**Jeff Schein is a CGA and offers advisory services in the areas of business planning, business modeling, strategic planning, business analysis and financial management for new ventures and growing small businesses. Visit [www.companyworkshop.com](http://www.companyworkshop.com) or <mailto:jeff@companyworkshop.com>.**

# **The REAL Secret to Success**

by Angie Dixon

I used to see a chiropractor who handed out a little leaflet entitled "Dr. Hickman's Guide to Success in Business." It was very nice, had his picture on the front and was professionally printed. On the inside it said, "Get a job and go to work every morning."

There is a secret to success, believe it or not, and I'm going to tell you what those people who are "successful" do, that people who are "not successful" do not do, either because they're unwilling or because they don't know it would make the difference.

Successful people do the things no one likes to do.

They do the "grunt work" of marketing and running their businesses. They stuff envelopes. They follow up with prospects. They do the research and find web sites willing to link to them. They do what no one else wants to do, and it pays off.

In my business, the things no one like to do include asking, "Would you like to hire me as your coach today?" and finding links to my web site.

What are the things no one wants to do in your business? How can you make yourself do those things even though they're "yucky," tedious, boring and obnoxious? What will the results be if you do those things? How will you know when you're successful?

If you'd like help discovering the things you need to do (that no one likes to do) or how you'll know when you're successful, email me. I'm a life and business coach.

*Angie Dixon helps small business owners get their acts together. She is a personal development coach specializing in helping people integrate their home and work lives so they feel less stretched and more balanced. Get her FREE EBOOK on balance at <http://www.discoveringtruenorth.com>. For questions or to discover how coaching can change your life, contact Angie at <mailto:angie@discoveringtruenorth.com>.*