Understanding Global Capitalism

The Entrepreneur´s Guide to Wealth Creation

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Contents

Introduction

Capitalism has built the modern world. Although there are some who would dispute that claim, it is clear, at least for those who examine the facts without bias or political intent, that economies based on capitalism are stronger and expand at a faster rate than other economic systems. This fact has been well established throughout history.

At its simplest and purest, capitalism is an economic system in which private individuals and companies produce and exchange goods and services through free markets. Ideally, capitalism is not hindered by governmental controls; in reality, however, there are many shades and nuances of capitalism that result in economic systems that are often described as a *mixed economy*. In some lands, capitalism is restrained by laws and governmental regulations; the degree determined by political and social objectives. Many political leaders hope to influence their people via the economy, they may attempt to protect domestic business from foreign competition, or they may try to increase revenue with tariffs or export duties. That these types of objectives usually only hinder economic activity over the long term is frequently ignored, lost in the rhetoric about social considerations and goals.

Of the many factors that can affect how the capitalist spirit develops in a country, one which is often overlooked is that of entrepreneurship. In lands where capitalism is unfettered by unnecessary regulation and where entrepreneurship is dynamic, impressive economic gains and advancements can be expected. Entrepreneurship is perhaps one of the greatest driving forces of capitalism. Indeed, the two are inseparable.

Capitalism is an economic system in which the means of production and distribution are privately owned and operated, and an entrepreneur is an individual who undertakes to start and conduct a business. Entrepreneurs propel capitalism forward. The bottom line here is quite clear: if a person is restricted in his ownership of a business through governmental regulations or social constraints, why should he or she risk starting any economic enterprise? Conversely, if an individual perceives that his or her efforts will be the overall deciding factor in economic gain or loss, he or she is more likely to risk investment in a business venture.

The world has seen many different economic systems throughout history. With its origins deep in the mists of ancient societies, barter was one of the first economies in which individuals and groups exchanged goods and services, paying for one commodity with another. Rudimentary forms of capitalism were not far behind and their origins are likewise obscure. Capitalism is generally thought to have arisen in various places around the world, gained prominence in old Europe centuries ago where it developed slowly and gradually spread through most of the world, reaching its zenith during the 19^{th} century and remaining dominant until World War I. For a time during the 20^{th} century, communism, a system in which the state plays a major role in economic ownership, regulation, and intervention, challenged capitalism's dominance, particularly in the Eastern Hemisphere, but as the century ended, capitalism, in one form of another, has re-emerged as the world's premier economic system.

The effect of capitalism extends far beyond economics, however, for capitalism is a major factor in the evolution of nations. Virtually every great nation through history has been a potent economic power as well. An excellent example of this in the 20^{th} century is the ascendance of the

Soviet Union as a world power after World War II. For a time the Soviet Union, founded on communism, seemed ready to challenge the United States for world military, cultural, and economic supremacy, but their threat was short-lived. While some observers of the world scene argue that it was American President Ronald Reagan's hard-line military stance against the Soviet Union that led to the eventual breakup and dissolution of that communist state, it was American economic power, based on capitalism, that provided Reagan with the foundation on which he could make his stand. Communism could not keep pace with America's economic strength. Reagan's policies also have led to the People's Republic of China slowly but steadily turning to capitalism to enhance their economy. Mainland China's appreciation of capitalism is well illustrated with the reversion of Hong Kong – one of the world's greatest free-market success stories – to Mainland control and the pledge of the Chinese government not to tamper with Hong Kong's economy, a promise the Chinese have honored.

The resurgence of capitalism at the end of the 20th century has been driven by a powerful tide of entrepreneurship in the technology sector, most apparent in the explosive growth of the Internet, and has led to spectacular economic gains. E-commerce (electronic commerce) is without question changing the way the world does business, and it can easily be termed E-capitalism.

We are in a period in which economic opportunity has seldom been greater. As technology and the Internet continue to advance, every business or enterprise that can benefit from them has the opportunity to advance as well. Ten years ago, few of the top Internet companies had even been imagined. Ten years ago, we were only on the verge of the new capitalist economy that, while built on the old principles of capitalism, is immeasurably enhanced by technological know-how. Ten years ago, traditional businesses were still the norm. And now, new ideas are giving rise to new companies every day. The businesses, services, and companies that may dominate the economic landscape ten years from now are still in the formulation stages of their creators. The opportunities for entrepreneurs are perhaps greater than ever.

Certainly we are witnessing the coming of a new economic age in which those individuals and companies that produce the goods and services that satisfy the needs of a modern, fast-paced world will be the most successful. Technology permits customers to buy the items or services they desire with a mere click of a mouse. Individuals who embrace the spirit of the entrepreneur and who are able to ascertain the needs of potential customers stand to benefit handsomely.

After all, entrepreneurs have been creating and running businesses since primitive times. Going back to the earliest societies, farmers, fisherman, and merchants traded their goods and services. Every business that exists today at one time was the dream and ambition of an entrepreneur. The entrepreneur is the visionary, the man or woman with the better idea, the innovator, the doer. It is the entrepreneur who creates the original product, acquires the facilities and materials, obtains the capital, assembles the workforce, and brings the finished product to market. It is also the entrepreneur who reaps the profits of a successful venture. In the case of failure, the entrepreneur stands to take the major loss.

Capitalism and entrepreneurship are closely linked. Capitalism is the economic system most conducive to entrepreneurship, and entrepreneurship provides the innovation and energy of capitalism. Each sustains and gains strength from the other, together forming a solid bedrock for economic activity.

While opportunity for entrepreneurs is present in the most advanced economies, clearly developing economies offer the greatest opportunities because of their nature, which usually includes a rapidly growing middle class with a strong desire for consumer products. As companies attempt to meet the needs of these new consumers, entrepreneurs are likely to find countless opportunities. In advanced nations new products and services are typically brought to market by major corporations that maintain huge staffs, whose primary purpose is the design and creation of new products. In smaller, developing nations, however, niche markets and special needs present an environment that is ripe for innovation. In many of these nations, governments may actively support entrepreneurs through a variety of special programs, including tax incentives, special trade status, and an assortment of grants, to encourage investment and economic activity. The leaders of such governments are aware that entrepreneurs energize capitalism, which in turn leads to economic growth.

As the global economy continues to expand, world trade will undoubtedly increase. At the same time, because of the growing role of technology, boundaries between nations and markets will shrink, providing entrepreneurs will marvelous opportunities, limited only by their own imaginations. The world is entering a rare and wonderful environment for the entrepreneur.

Chapter 1

The Development and Growth of Capitalism

While examples of capitalism can be found throughout the world since the most ancient of times, the evolution of capitalism as a comprehensive economic system occurred primarily in England and much of Europe over several centuries. The concept of private ownership of the means of production and trade in free markets, which is at the heart of capitalism, spread from the continent throughout the world. Capitalism was the dominant economic and social system of the world until the conclusion of World War I and the rise of communism, which emerged as a serious challenge. For a time communism seemed poised to supplant capitalism, but capitalism has an enormous capacity to adjust to changing conditions and it has regained its position as the world's most important economic system.

For years the system we now call capitalism did not even have a name. It simply was the system by which individuals, businesses, and countries, to one degree or another, conducted trade. Adam Smith, the Scottish philosopher, was the first to examine the effect of a country's economy on society, concluding that it was possible for society to benefit as a whole even as individuals pursued personal gain and profits. According to Smith, the needs of society, the needs of the people, are best met when individuals have the freedom to produce and distribute the products that will satisfy those needs. This, of course, embodies the underlying mechanisms of capitalism.

Smith did not create the term, capitalism, however. Not until the mid-19th century did Karl Marx, the founder of communism, introduce the word *capitalism* to describe the most common economic system of the world, and his view of the world's economic state was quite different than that of Smith.

Marx viewed capitalism as detrimental to society. According to Marx, when individuals and companies pursued profits, they were more inclined to ignore the most important needs of society and instead work for personal gain. Any economic system so organized is prone to corruption and abuses. A good example here is when companies form cartels or monopolies and manipulate prices or curtail production in an effort to increase their gains. While owners benefit enormously, society as a whole is harmed.

Certainly some of Marx's points were valid, however, in his attempt to discredit capitalism he failed to recognize the inherent weaknesses of communism. Whenever government owns and controls the means of production and distribution, it is easy for government itself to become corrupt. When this happens, there is no overseeing authority or agency that can address the corruption and cleanse the system of abuses. It is much like the fox guarding the chicken coop. As history has shown, this inherent, fundamental weakness of communism had led to its eventual rejection by many countries that had once embraced it. Without question, the world is becoming more capitalist every day.

The Origins of Capitalism

Primitive economic activity in the form of barter has its roots in antiquity when our ancestors realized that it was easier to trade for needed items and materials rather than attempting to take them by force. Trade, obviously in most cases, is preferable to warfare, which is detrimental to society. By the time of the earliest civilizations, merchants were a significant segment of the population and trade flourished, not only within cities but between cities. It is thought that ancient trade routes connected most parts of the Europe, Africa, and Asia. Although politics is often cited in history books as the causes of many wars, most of the ancient world's wars were fought over land, markets, and commercial interests.

Despite thousands of years of economic activity, modern capitalism did not begin to develop as a recognizable economic system until the 13th century in Europe, near the close of the feudal era. The seeds of capitalism were planted during the previous two centuries which witnessed the crusades and the mass movement of European armies and pilgrims eastward, bringing along with them merchants and traders who forged business ties from Constantinople to Jerusalem. The European world was enhanced, the European sphere of influence was enlarged, and European regional economies began to expand. Local economies became regional, and regional economies became continental.

These years also saw the emergence of a new man of business: the *entrepreneur* or *risk-taker*. During the Dark Ages, a time after the fall of the Roman Empire and roughly to around the 11th century (history texts vary somewhat over the dates), merchants tended to trade mostly with men they knew and in areas where they felt reasonably safe. Risk-taking was kept to a minimum, if for no other reason than times were hard and uncertain. Nation-states had not developed, local rulers engaged in near constant warfare, and brigands roamed the land ready to pounce on unwary travelers.

As Europe slowly began to emerge from the Dark Ages, learning, trade, and security all advanced. For merchants, and anyone else who wished to better his station in life, the social and economic climate were more conducive to attempting to increase one's trade and standing. Some people saw the chance to improve their circumstances by providing goods or services to others. Of course, an attempt at selling one's services or goods always carries with it a risk that the venture will fail. However, a successful venture means advancement. In a conducive climate, more people were willing to invest their resources, time, and efforts to improve their lives. These individuals were, without a doubt, the first true entrepreneurs.

By the time of the latter crusades, the supply of money also began to grow, largely due to the profits that accompanied increased trade. The first bankers began to advance sums of money – at rates of interest – to individuals who needed financial backing for their enterprises. In time, this simple system of lending evolved into the reservoir of capital that entrepreneurs would tap to fund their business ventures.

Once begun, the development of capitalism accelerated rapidly, fueled by events that were to forever change the world. The Renaissance, with its energetic quest for learning and knowledge, and the Reformation, which brought new ideas in religion, both challenged the old ways and helped move European society forward. This was also a time during which the nation-states of Europe arose. For centuries after William the Conqueror's Norman conquest of England in 1066, England had struggled to merge the cultures of the Saxons and Normans. This at last became reality during the Renaissance, and England soon became one of the most powerful countries in the world. France, Spain, and Italy also began to assume the general boundaries they maintain today. (Germany did not become a unified state until the 19th century.) The modern nation-state is essential for capitalism, just as fertile soil is vital for healthy crops, for the nation-state can provide the framework – law, security, and methods – essential for large-scale commerce to flourish. Once capitalism took root in the emerging nation-states, the capitalist spirit grew rapidly and was spread throughout the world during the 15th and 16th centuries by European explorers and colonists.

Mercantilism: A Special Brand of Capitalism

Between the early 1400s and early 1700s, capitalism assumed one of its many forms which came to be known as mercantilism. Although the mercantilist system relied on private property and markets as the foundation of economic activity, the system was manipulated by the state to enhance the nation. Since the purpose of trade was to advance the objectives and power of the state (and its rulers), government attempted to control economic activity through laws and regulations. Such management could be quite complex and overbearing, as when Spain instituted laws that required its colonies in the New World to trade exclusively with the mother country, in effect creating a monopoly whose primary purpose was to enrich Spain.

One of the most important elements of mercantilism was the goal to build national wealth, and the primary way of doing this was to accumulate gold and silver through favorable trade balances. At the time the amount of gold and silver in a nation's treasury corresponded directly to the nation's wealth. To attain favorable trade balances –and thus more gold and silver – most mercantile nations sought to export more than they imported. Their trading partners (who for the most part were importers) would then have to balance their trade deficits by paying the exporting nations in gold, silver, or valuable products or raw materials. The accumulation of gold and silver would add to the exporting nation's overall wealth, encouraging domestic economic expansion, which would produce more goods for export. In ideal conditions, the wealth of a mercantile state would grow rapidly at the expense of its trading partners.

Few things in the economic world are ideal, however, and the downside to mercantilism is obvious. As some states prosper, others become poorer. Over time, the poor states can no longer afford to purchase the products of the prosperous states. Moreover, it is difficult for states to effectively manage growing economies. Market forces often run counter to mercantile objectives. It eventually became apparent that mercantilism could not be the engine for sustained economic growth on a world-wide scale. This set the stage for modern capitalism.

The Basics of Capitalism

Capitalism is a broad economic term that includes many variations. Pure capitalism, in which private individuals and companies create, produce, and exchange goods and services in an entirely free-market environment, is rare. Most governments, even those that proclaim their support for free markets, enact laws that govern, or, at least, regulate trade and commerce. Depending on the country and its commitment to true free trade, the laws might be rather complex and far-reaching, or they might be minimal, stipulating little more than necessities to support the flow of trade. Today, the Western nations, as well as much of the rest of the world, have mixed economies, based on capitalism to be sure, but regulated in some sectors.

Regulations might include tariffs, quotas, special entry requirements, special trade status, incentives or inducements. While the overall activity of the economy is capitalist, such regulations unquestionably have an effect that hinders the total free flow of goods and services.

Precisely defining a *mixed economy* can be difficult, because there are all manners of such economies, depending upon the degree of regulation. Capitalism, however, can be defined through several characteristics, including:

- Capital (meaning facilities, machinery, and other equipment used to produce goods and services), land, and production sites are privately owned.
- The interaction of producers, sellers, and buyers determines economic activity. In the ideal state, goods, services, and markets are free from government intervention or regulation and shape the economy through their interaction.
- Owners of capital, land, and production facilities, as well as individual workers are free to pursue their own economic self-interest. Workers may change occupations, based on availability and talent, entrepreneurs are free to start their own enterprises, and the owners of production facilities are free to produce the goods that they believe will satisfy the needs of markets.
- Consumers may spend their resources in a manner that they feel best satisfies their interests and needs. This principle is called *consumer sovereignty*. According to this principle, businesses will adjust their means of production to coincide with consumers' needs, which will in turn maximize their profits.

- A minimal amount of governmental intervention is required in a true capitalist system because competition will regulate overall economic activity.

The Emergence of Modern Capitalism

By the second half of the 18th century, new ideas about economic growth increasingly focused on the relationships between production, sales, and profits. One of the leaders of these new ideas was Francois Quesnay, a Frenchman, who believed that goods and money flowed through the economy in self-sustaining patterns and did not require government management. Economies were constantly in a dynamic state in which various sectors reacted to market conditions. Left to itself, an economy could grow and its people could realize prosperity. The ideas of Quesnay, and other economists of similar persuasion, coincided with much of the new political thought of the time that eventually was expressed in the American Declaration of Independence and the French Revolution.

Adam Smith, one of the best known economists of the period, carried Quesnay's ideas even further. Smith believed in a natural order of an economy, a position that directly challenged the foundations of mercantilism. According to Smith, economies operated most efficiently when free of state interference. Smith advanced the thought that governments should be limited in their powers to manage the state's economy.

The ideas of Adam Smith and like-minded thinkers laid the foundation for the Industrial Revolution that began in England in the late 18th century. By calling into question the overall effects of mercantilism, they weakened the concept of the mercantile system, showed its flaws, and provided people with alternative economic ideas. Had governments clung to mercantilism, it is unlikely that industrialization would have developed as rapidiy as it did.

The Industrial Revolution was driven by men and women with new ideas. These individuals were entrepreneurs, who were willing to take risks to build businesses. In a tightly controlled economic environment, risk-taking would be suppressed because people would feel that their efforts were constrained by government and its ministers and deputies. A capitalist system, however, in which profits resulted from a man's ideas and production processes, encouraged entrepreneurship.

The essence of the Industrial Revolution was the replacement of human and animal power for production processes by mechanical power. As productivity rose, economic activity underwent fundamental changes, including:

- Factories were built in which large scale and specialized production could take place.
- Because of the possibility for specialized production, new ideas and innovation moved rapidly ahead. People began to envision countless new products.
- The modern working class began to develop. More than ever, workers were paid wages. They were free to move from job to job, selling their labor to the highest bidder.
- Efficiency increased many times over, leading to an abundance of goods at lower prices. This in turn led to a rise of the standard of living, particularly in England, the United States, and Germany, countries which were among the first to industrialize.

- The modern consumer class began to form. Although remaining critically small at first, as incomes rose, so did consumerism. The middle class began to increase.

While the Industrial Revolution clearly brought much good, it was accompanied by serious problems. Workers labored long hard hours, often in dangerous and squalid conditions. Women frequently worked excessive hours for what amounted to less than subsistence pay, and children, too, were forced into labor with many childhoods being lost. The sweatshop, with all of its monotony and drudgery, left its mark on countless workers. For most people, the coming of the Industrial Revolution meant a higher standard of living but little time for relaxation or enjoyment.

As industrialism advanced, many small manufacturing facilities were consumed by large companies that strove for profits at whatever the cost. For the first time in history, the survival of the small business was threatened by immense corporations and ruthless competition.

Once the Industrial Revolution had gained momentum, it also became clear that the economy could fall prey to cycles of expansion and contraction, the "bull and bear" markets so well known today. During times of slow or negative growth, workers were laid off from their jobs, causing great hardship for few social programs existed that could soften the blow of job loss. During weak economies, the suffering of jobless workers could be great.

Although it was clear that a new economic system was developing, the system was little understood. Economists of the time could not explain the cycles of boom and bust, and often described such fluctuations as the natural state of capitalism. After the economy expanded, there inevitably would be a time of slow or zero growth. After the period of slow growth, market conditions would change and growth would increase, much like the ebb and flow of tides on the coast. A variety of causes were suggested to explain the fluctuations, including the inability of the system to efficiently match supply with demand, shortages of money and credit, and the moods of the people, which when high could spur economic activity and when low could lead to downturns.

These apparent weaknesses of capitalism motivated Karl Marx to design a new economic system, communism, which for a time during the 20th century competed with capitalism for world preeminence. For much of the century, communism was embraced by many countries, most notably the Soviet Union, the People's Republic of China, and Cuba. By the late 20th century, however, capitalism had reasserted its dominance. Most of the countries in which communism had been state supported, including the Soviet Union, had turned away from the system and had begun moving toward capitalism.

Turmoil in the 20th Century

Capitalism sustained its greatest challenges during the 20th century as wars, depression, and severe economic fluctuations assailed it. The World Wars and the social, political, and economic upheaval they brought severely undermined capitalism in many parts of the world. Only now, with the new Millennium, have some of those regions at last reestablished capitalist systems.

The aftermath of World War I – called "the war to end all wars" – resulted in great changes in the world's social and economic landscape with far-reaching consequences. The Russian Revolution led to the emergence of a communist state that eventually was to dominate much of the East, the breakdown of the capitalist system in Germany provided the social and economic desperation that led to the rise of Adolph Hitler's Nazi Party, and in the United States, capitalism, unleashed and running wild, particularly in regard to the stock market, led to the Great Depression that in time swallowed much of the world's economy. The conditions arising from these events virtually ensured that another world war would have to be fought. When it came, the destruction that resulted far exceeded that of the First World War.

The aftermath of World War II presented one of the greatest challenges to capitalism as communist regimes, supported by the Soviet Union, gained control of many eastern European and far eastern nations. Moreover, many new nations, arising from the disintegration of the old colonialism looked to communism instead of capitalism to lead them to economic growth. At one time, close to 40% of the world's people lived in communist lands. Responding to the threat of communism, capitalism had proven its mettle. Communist economies simply could not keep pace with capitalism's growth. The pressure of trying to keep up bankrupted communism, ideologically and economically.

While the World Wars and communism certainly strained the economic resources and systems of capitalist countries, the greatest threat to capitalism was the Great Depression, which began with the U.S. stock market crash of 1929. Production and income fell; people saw their life-savings lost. Businesses went bankrupt and millions of workers lost their jobs. Never had Americans witnessed such long lines at the soup kitchens.

Supporters of Karl Marx noted that the conditions resulting from the Depression were precisely what Marx had predicted for capitalism. Marx also predicted, however, that such crushing economic conditions would lead to revolutions, which would overthrow the capitalist system. This did not happen. Instead capitalism showed an extraordinary capacity to adjust.

Governments stepped in and passed legislation that rectified the abuses – most especially speculation in financial markets – that had led the world to depression. The United States, in particular, was in the forefront of the sweeping changes. In the U.S. Franklin D. Roosevelt implemented his New Deal, which included restructuring the nation's financial system. Under Roosevelt's administration, collective bargaining was encouraged and labor unions were supported as a means of curtailing the concentration of power in large corporations. Roosevelt also introduced unemployment insurance and social security, which helped to protect people against the loss of income due to layoffs during economic downturns, one of the major pitfalls of any capitalist system.

By the mid-1930s economic thought, most notably advanced by the British economist John Maynard Keynes in his *General Theory of Employment, Interest, and Money*, was moving to a consensus that government could, and should, use its power to manage the cyclic nature of capitalism. By controlling the money supply through a combination of raising taxes and spending funds on public projects, the state could prevent the fluctuations of the economy from rising or falling too much. Keynes's ideas led to the general belief that through control of a nation's money supply and the proper amount of government intervention, states can enhance capitalism, a view widely held today and responsible for the so-called mixed capitalism that describes the economic systems of most nations.

While Keynes's ideas have not entirely prevented the "boom and bust" cycles, they have softened them. No subsequent economic downturn has approached the Great Depression in magnitude or the suffering that resulted. Indeed, in the decades following World War II, the United States and the Western European nations experienced extraordinary growth, mostly due to their adherence to capitalism. The high inflation of the late 1970s and through much of the 1980s that threatened to disrupt the economy was brought under control through a combination of government initiatives as well as the general tendency of markets to adjust to changing conditions. As the century ended, capitalism, in many respects, has never been stronger or more successful.

Once capitalism supplanted mercantilism, its expansion continued throughout the 19th century and well into the 20th. The two world wars, the end of colonialism, and the rise of communism resulted in severe stress on the system, however, capitalism withstood all of the challenges and has continued to prosper.

Capitalism's success results from the system's ability to create wealth and improve the standard of living of virtually all who take part in economic activity. Because capitalism permits individuals to profit, based upon their abilities and talents, it encourages entrepreneurship and participation in a nation's economy and therein lies its greatest strength.

Chapter 2

Modern Capitalism

Although the roots of capitalism can be traced back to Europe's Middle Ages, modern capitalism did not evolve until well into the 20th century. Today, capitalism, in one form or another, is the world's dominant economic system. It is no coincidence that the nations in which capitalism is most strongly established are also among the world's most prosperous.

Capitalism can perhaps best be described as a vast system of relationships. Comprised of entrepreneurs, innovators, creators, producers, sellers and buyers, capitalism is a complex and dynamic force that encompasses not just economics but society as well. The citizens of a wealthy nation clearly enjoy more opportunities and pleasures in life than those who live in poor lands. The difference in wealth and opportunity can almost always be traced to the prosperity capitalism brings.

In its purest, or *laissez faire*, form capitalism is rare. Except on small scales, pure capitalism has probably never existed and is unlikely to exist. Nevertheless, an understanding of capitalism at its purest is essential for understanding how capitalism operates. Thus, much of the discussion that follows examines capitalism in its ideal state. All versions and forms of capitalism are founded on pure capitalism, and they have much in common.

Modern capitalism embodies the following elements:

- The right of individuals, companies, and corporations to own private property.

- Free enterprise.
- Self-interest as the primary motive which supplies the impetus for capitalism.
- Competition among producers and buyers of goods and services.
- A significant consumer class.
- Markets and prices that respond to buyer demands and supply.
- A limited amount of government regulation. If regulation of the economy becomes too great, capitalism loses its distinguishing features and slips into one of the various forms of socialism.

Each of the above elements affects the others in a capitalist system. A discussion of each element follows.

Ownership of Property

In a capitalist system the means of production, including manufacturing or assembling facilities, machinery, equipment, and land, are owned by private individuals and companies as opposed to government. Along with any financial resources, these make up what is commonly referred to as *capital*. While the government can own property, for example, the buildings housing public offices, military bases, and parks, the bulk of property in a capitalist system is owned by individuals, companies, and corporations. The ownership of private property together with the freedom to enter into legal business arrangements enables owners to utilize their property in the manner they choose – in most cases to produce goods or services which can be marketed for profit.

Without private ownership of property, a capitalist system can not exist. If individuals and companies could not own property, and potentially enjoy the benefits of ownership, there would be little incentive for hard work or economic risk-taking.

Free Enterprise

If private ownership of property is thought of as being the foundation of capitalism, freedom of enterprise is the framework on which the system functions. Under capitalism, individuals and companies are permitted free choice in the way they conduct their business: the obtaining of resources and supplies, the organization of their business operations, the products or services they will offer for sale, the manufacturing or packaging of their products or services, and the selection of the markets through which they will offer their products or services. While laws and traditions regulate free enterprise – for example, individuals cannot produce and sell narcotics – regulations that are designed to govern specific economic activity are best kept at a minimum. Over-regulation suppresses trade and commerce.

The freedom in a capitalist system is broad. While entrepreneurs have the freedom to pursue and develop their ideas, bringing them to market for sale, workers are free to find employment in occupations for which they are capable, and buyers and consumers are free to purchase the products and services they wish in accordance with their needs and incomes. The less government interference in such activities, the purer the system of capitalism becomes.

The consumer occupies a prime position in a capitalist system, for he or she decides which products and services to buy. Businesses and manufacturers respond to these choices by attempting to supply what the consumer desires. In attempting to gain a larger share of the consumer market, businesses try to anticipate consumer demand, which, when anticipated correctly, enables them to efficiently bring to market the products and services consumers prefer. The business that anticipates consumer demand more effectively than its competitors will enjoy greater success and profits.

Self-interest: The Ultimate Motive

Self-interest is the ultimate motive or purpose of capitalism. Because individuals and companies in a capitalist system are free to pursue their self-interests, there is great activity in the development of new ideas and the formation of businesses. People and companies strive to earn as much income as they can. Thus, capitalism offers entrepreneurs an excellent environment in which they may create and market new products and services.

Just as producers and sellers are motivated by self-interest, so are buyers. Since rival companies compete against each other for the consumer's money, the consumer generally has a wide choice of products and services on which to spend his or her income. Consumers often select what they believe is the best product or service for the least cost.

Self-interest helps to maintain balance in a capitalist economic system. If a business manufactures products or designs services that hold little interest for consumers, few of its products or services will be sold and the company will quickly begin the descent toward bankruptcy. The business that satisfies the needs of consumers is more likely to prosper. In this case, the company serves its self-interest well, and it also enables consumers to satisfy their self-interest by providing them with the products and services they prefer.

The Battleground of Competition

Economic rivalry, or competition, is one of the most important aspects of capitalism. Competition forces individuals and companies to work efficiently and effectively. If they fail to do so, they will be pushed aside by their rivals.

In a robust capitalist climate, competition has three focal points. First, there are numerous producers/sellers in any market, each of whom is attempting to sell a product or service for the highest price possible. Second, there are numerous buyers in any market, each of whom is attempting to purchase products or services at the lowest price but will still satisfy his need. Third, producers/sellers and buyers have the freedom to enter or leave any market, based upon their perception of the market either satisfying or not satisfying their needs. Such conditions create vigorous competition in which only the most innovative and efficient producers/sellers will prosper, and in which only the most astute buyers will end up with the best products or services for the lowest prices. Such buyers will then have more money to spend on other items.

Healthy competition diffuses economic power throughout the economy. For example, if a company invents and manufactures a new "gizmo" that becomes quickly popular among consumers, it is likely that other companies will soon begin manufacturing similar products that consumers can easily substitute for the original. This event has two significant results: 1) consumers will have a choice between similar products, and 2) the company with the original gizmo will be pressured not to raise prices – or perhaps even reduce them – for fear of losing its market to its competitors. Competition makes it difficult for individuals or companies to amass great power or influence within specific markets.

Competition also impacts on companies' talents for innovation and their overall efficiency. Vital, forward-looking companies are always aware of their competition and are always striving to create original products and services that will satisfy the needs of buyers. Companies that pay little heed to their competition, or dismiss the true needs of their buyers, risk being surpassed by their rivals.

Competition helps to regulate overall economic activity. It reduces wild speculation and limits the potential abuse of economic power. To remain competitive companies must focus their energies on providing products and services that satisfy the needs and demands of buyers.

Consumers

Without consumers, modern capitalism would collapse. It is, after all, consumers who buy the products and services companies offer for sale. If there is not a large and prosperous consumer class, there is little need for companies to mass produce items.

Although a consumer class had been slowly developing in Europe since the late Middle Ages, it remained rather small and inconsequential until the advent of the Industrial Revolution. Industrialization brought higher living standards, more jobs, and higher wages – though working conditions were poor and hours long – and in time disposable income rose and the numbers of consumers increased. The consumer market began to take shape, bringing along with it a growing middle class.

Becoming aware of this "new" buying segment of the population, companies began to design and offer products for popular consumption. As consumer demand for products increased, companies responded by expanding and hiring more workers, which in turn created more consumers. Consumer demand to a very large extent determines what products and services companies offer.

Markets, Prices, and Buyer Demand

Modern capitalism depends upon markets, which together with the prices of the products and services they contain serve as a court for economic activity. Buyers and sellers come together in the marketplace, their interactions determining prices.

More so than any other components of capitalism, markets, prices, and demand regulate economic activity. If products or services are priced too high, buyers will be reluctant to purchase them. If they are priced too low, buyers will purchase them rapidly. In such cases, the wise seller will raise prices, which may then slow the rate of sales. If the price of a product or service becomes too high, sales will slow or even stop; however, if prices are fair and reasonable, the seller will be able to sell and buyers will buy, resulting in the seller achieving a profit and the buyer gaining satisfaction with the product.

Throughout this process, freedom of choice is paramount. Buyers can leave the market at any time and sellers have the right to adjust prices according to the perceived demand.

The term *demand* has broad meaning to an economist. Most economists define demand as the amount of a product or service which buyers purchase at specific prices in a range of possible prices during a specific time period. Demand is, therefore, closely linked to price and buyer desires.

Demand contains a fundamental characteristic: as price decreases, the demand for a product or service rises, and as price increases, the demand falls. Economists often refer to this as the *Law of Demand*. If buyers feel that the price of a particular product or service is too high, they will often purchase similar products or services as substitutes. Thus, competition is a major element in the relationship between demand and prices.

Several factors influence the demand for a product or services, including:

- The preferences and needs of buyers.
- The number of buyers in the market place.
- The amount of money buyers are able to spend.
- The prices of related or potentially substitute products or services.
- The expectations of buyers in regard to the future cost of the product or service.

A change in any of the factors can affect the overall

demand for the product or service. In turn this can affect the price as well as the market.

Underlying the system of markets, prices, and demand is *supply*, which refers to the various amounts of a product or service that a producer or service provider is able to make available for sale in a specific market at a specific price during a specific period of time.

There is direct relationship between supply and demand, which can be summed up quite simply: as prices rise, supply rises (because demand falls and fewer buyers are willing to pay the higher price for the product or service), and as prices falls, supply also falls (because demand rises and more buyers are willing and able to purchase the produce or service). Nóte that in the case of rising prices and supply, producers are generally willing to produce more of their products or services because they earn more profit from each item. This can offset any losses due to fewer buyers purchasing the product or service.

Several factors help to determine and affect supply, including:

- The methods of production.
- The cost of resources.
- The prices of competing products or services.
- The expectations for the potential rise or fall of prices.
- The number of competing sellers in the market.
- The number of potential buyers.

Again, as with the factors that determine demand, changes or variations in any of the above factors will affect supply. Depending upon the degree variation, the resulting changes can be minor or significant. Resources and raw materials, for example, can directly affect supply. A company may design a product that has immediate buyer appeal. The product debuts in the market place and the demand for it is high. Unfortunately, the resources or raw materials needed to manufacture the product are in short supply, and the cost for the resources and materials will begin to rise. The company now must raise the price of the product, which can affect the demand.

Supply and demand help to determine the prices of products and services in any market. The many factors that affect each are in constant fluctuation and will achieve a balance when free of excessive interference. If a company raises the price of a product or service beyond the range of what the typical buyer is willing to pay, demand for the product or service will fall. Buyers will turn to competitors and the company that initially raised prices will either have to lower them or risk losing market share. In time, competitors might supplant it with superior products or services or simply more reasonable prices. Similarly, if buyers have great demand for certain products or services, companies can raise prices without risking significant loss of sales. The various factors affecting supply, demand, prices, and markets are in constant interaction, and under normal economic conditions will always achieve an equilibrium in the market place.

A Limited Role for Government

When all of the components of capitalism are working optimally, there should, in theory, be no need for government regulation. The system should achieve a high degree of efficiency, based on the production and exchange of goods and services. The interactions of markets, prices, and demand should be a self-correcting mechanism.

Unfortunately, capitalism in practice has never reached the level where it is entirely free of government interference. It should be noted that the temptation for managing the economy is very great for government officials. It is quite tempting to slap a tariff on, for example, certain imported agricultural products in an effort to protect domestic farmers. Not only does the tariff reduce competition, helping domestic farmers to prosper, payment of the tariff flows directly into the government's coffers.

There is a risk to imposing tariffs, however. The countries affected by the tariffs are likely to impose tariffs of their own. When tariffs, and other regulations, become widespread, the flow of goods and services can become seriously restricted, leading to decreased economic activity. Opportunities become limited and entrepreneurs may be less willing to take risks, particularly in sectors affected by heavy regulation. Eventually, innovation is stifled, furthering slowing commerce and trade.

Conversely, reduced or limited government interference encourages trade, innovation, and risk-taking. In an economic environment in which energetic competition is the norm, innovation runs at a fever pitch as companies attempt to out perform their rivals. The entrepreneural spirit soars as new ideas are crucial to fend off competitors. Economic activity is high and free-market economies expand.

Reliance upon Technology

Modern capitalism is powered by technology. In a global economy where even small companies can sell their products and services virtually any place in the world, technology is essential for success. Like the human heart is essential for life, vital for pumping blood and nutrients to all parts of the body, technology is found in virtually every aspect of a company's operation. Consider the following:

- Ideas for new products or services may be formulated or designed on computers.
- Communications to affiliates, buyers, or sellers can be conducted over phone lines, cellular phones, fax machines, or the Internet.
- Modern production processes are likely to include some types of robotics. At the least they will include computer-assisted equipment.
- Computer systems may manage the flow of raw materials, supplies, equipment, cash flow, and accounts, improving efficiency many times over human management.
- Products are most likely transported over systems that contain the latest advances in technology.
- Products are warehoused in modern facilities with effective tracking systems in place.
- A reliance of technology enhances a company's entire operations from original idea and design to production and sales.

Closely allied with technology is specialization. The capitalist world is without doubt a world of specialists. Virtually no one in a modern nation produces all the things he or she needs to live and enjoy life. Computer programmers, business owners, doctors, lawyers, plumbers, electricians, auto mechanics, and teachers are just some examples of specialists.

Specialization enhances productive efficiency. One of the greatest leaps forward in the advancement of civilization thousands of years ago was agriculture, which enabled a portion of the population to supply food for the rest of the society. This enabled people to become specialists in trades and occupations. Thus, some people specialized in building, becoming primitive engineers, others specialized in religion, becoming the priests, while still others specialized in the arts, healing, or any of the numerous trades vital to the functioning of any town.

Today specialization is found everywhere in capitalism. It allows individuals and companies to take advantage of their strengths, skills, and abilities. Furthermore, when individuals and companies specialize, they discover improved methods and techniques for completing tasks, which adds to their level of specialization. Without question, specialization enables companies to compete more effectively.

The Threat of Big Government

Modern capitalism is the dominant economic system in the world. No other economic system has been able to increase trade and raise the standard of living for its participants like capitalism. Since the Industrial Revolution, capitalism has resulted in improvement of the quality of life for millions, if not billions, of people. As capitalism continues to spread around the world, living standards will rise accordingly. Economies around the world will expand and people will benefit.

What then presents the major threat to capitalism? Not competing economic systems, but rather government. As economies expand and nations prosper, companies and individuals earn higher incomes. Few governments can resist increasing taxes. Government bureaucrats are always proposing new programs – aimed at just about every segment of the population. While government requires money to function and provide the essential services its citizenry requires, many programs and services are not needed and are outright wasteful. Nevertheless, new programs are forever being proposed.

As government grows larger, it tends to manage more areas of life. The bigger government gets, the more management it attempts to exercise. The growth of government is largely pushed forward by bureaucrats who wish to extend their own functions. Like most people – and perhaps even more so than most people! – bureaucrats like to expand their agencies and offices. They accomplish this by interpreting the code of their functions liberally. Such interpretation enables them to expand their duties and responsibilities. As their office and purpose grow, they need to hire more like-minded individuals, who frequently pursue the same goals. This expands the bureaucracy even more. Clearly all this expansion requires money, which originate from tax dollars.

This general tendency of bureaucracy to expand is found throughout government on the federal, state, and local levels. Of course, bureaucrats could not expand their missions if other forces were not at work supporting them, and they have plenty of support in the form of special interest groups and legislators.

The three groups form a reciprocal relationship. Special interest groups have specific agendas, whether it is to expand social services to a particular segment of the population, protect wetlands, curtail urban sprawl, or any of a thousand other causes. Just about every "cause" has a special interest group behind it. The more powerful the special interest group, the more influence its members wield.

While interest groups can advertise their aims and work to gain public support, a more effective strategy is to support candidates for elective office who favor the group's objectives. Support for the candidate can range from campaign donations to handing out flyers to manning the phones on election day. Once the candidate is elected, he returns the favor by initiating and supporting legislation that helps to achieve the special interest group's goals. After such legislation has been passed, the new law frequently results in expanding the government agencies – part of the bureaucracy – that will be responsible for the special interest's group goals being satisfied.

It is especially important to note that through this reciprocal relationship, each of the participants achieves his or her objectives: the interest group realizes the fruition of its cause, the legislator is re-elected, and the bureaucrat has an expanded role in managing society. Indeed, this is such a successful arrangement that all parties involved work diligently to keep it running smoothly.

Powerful motives are involved, and the relationships thus formed become, in many cases, self-perpetuating, with information and pressure flowing back and forth between each of the participants. Consider the following:

- Special interest groups target friendly legislators; interest groups provide donations, support, and votes.

- The legislators (once in office) enact laws and regulations that enable bureaucrats to expand their reach to help satisfy the special interest group's objectives.
- The bureaucrats, for their part, often provide special interest groups with information that can help the group better formulate their goals and influence legislators.

In such a system, everyone benefits by helping everyone else. There is little incentive to stand against the system, an action that can result in a loss of power or position. Indeed, it takes truly principled individuals to oppose others in this kind of reciprocal relationship.

The relationship between special interests, legislators, and bureaucrats affects every aspect and level of government. The tendency of the relationship is to expand the role of government, which is of particularly great concern when the resulting government action intrudes upon the economy. Special interest groups seldom take into account the interests or needs of other segments of society when formulating their goals.

Let's use U.S. steel producers as an example. Let's assume that the steel industry is suffering intense competition from overseas firms that are shipping high quality steel to the U.S. at extremely low prices. Domestic producers, because of maintaining older, less efficient steel mills, are having trouble matching the foreign prices. Lobbyists for the steel industry pressure members of Congress to place high tariffs on steel imports. With patriotic fervor, for after all, they are attempting to protect American steel producers from unfair competition – and pleasure at accepting donations from the steel industry – legislators introduce and pass tariff regulations that price most foreign steel out of the U.S. market. As soon as the legislation is passed, bureaucrats begin the task of ensuring that the tariffs are properly imposed and compliance begins. The tariff provides precisely the results that were expected. The amount of foreign steel imports decreases and domestic producers regain their market share.

On the surface, this would seem to have been wise legislation. American steel producers have gained protection, American steel workers remain on the job, and American steel is once again the steel of choice. A closer examination, however, reveals the fallacy of this action. In targeting legislators and pressing their case for protection from "unfair" foreign competition, the steel lobby ignores the potential ramifications of their action on other segments of the economy. Foreign steel producers may retaliate pressuring their own governments to place tariffs on a host of American products. While this action may not directly affect U.S. steel producers, it will affect numerous other industries and companies.

Once the foreign tariffs are in place, the American companies affected will lobby their legislators to take the steps that will give them relief. Perhaps the legislators will impose their own retaliatory tariffs. Given this situation, it is not hard to see that should this tariff tit-for-tat get out of hand, widespread and serious disruption of economies will result. Rather than working to build barriers to trade, legislators and government leaders should attempt to reduce impediments and expand trade in a free-market environment.

It should also be noted that by protecting uncompetitive domestic industries through the use of import tariffs, domestic companies have little incentive to modernize and improve their competitiveness. In the end, the consumer is the big loser, and the companies that neglect modernizing will in time fall behind their rivals anyway.

Capitalism is truly a complex, dynamic economic system comprised of various components. Each element of capitalism affects every other element, resulting in a system that, in the absence of overbearing governmental interference, achieves an economic equilibrium. While there is a need for basic laws and regulation to reduce the potential for abuse and facilitate the flow of trade, attempts to manage a capitalist economy should be minimal.

Chapter 3

The Future of Capitalism

While there are plenty of theorists and so-called economic experts who see the decline of capitalism in the future, historical evidence and practical analysis offer a far more optimistic view. Most of the pessimists arrive at their conclusions by studying the economies of the past and projecting their interpretations into the future. While most admit that we are in a period of rapid economic change in which new technologies, opportunities, and ways of doing business are constantly evolving – atop a foundation of capitalism – they are not so quick to admit that the global economy of today is different than the global economy of even a mere five years ago. Change is happening so fast that accurate predictions become perilous and unreliable. To project what the world economy, and capitalism, will be like five years from now requires an efficient crystal ball and to predict what the economic conditions will be like in 25 or 50 years is virtually impossible.

Rather than attempting to make broad forecasts of future economic realities, it is far more useful to identify the basic elements of capitalism and evaluate them in the light of long-term economic trends. By understanding where the world's major economies have been and where they are now, we are more likely to be able to estimate what they will be in the future.

Based on its historical development, the future of capitalism is laden with optimism and opportunity. In a capitalist system, all types of economic activity occur more efficiently in a large, open-market atmosphere, and in a climate of restrained government regulations and interference. Under such conditions competition will be vigorous and innovation will thrive. As the nations of the world move toward a comprehensive free-market global economy, the opportunities for prosperity for people on every continent will increase. Except for regions where the state still controls economic activity, the global economy will be a capitalist one.

The movement to liberalize trade is a powerful one, as evidenced by two prominent trade organizations: the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA). The primary purpose of the WTO is to promote international trade in goods and services through the removal of barriers and adoption of rules supporting the flow of commerce. NAFTA was formed on January 1, 1994 to promote fair competition, foster investment, and protect intellectual property rights between the United States, Canada, and Mexico. These two organizations demonstrate the desire of member nations to create a trade environment in which goods and services can flow freely across borders.

Three developments during the last quarter of the 20th century have been at work propelling capitalism forward into the future with more force than any other previous events in history. The great advance of technology, particularly computing power, the explosion of the Information Age, and the creation of the Internet and e-commerce (buying and selling over the Internet) will bring about economic changes and opportunities that can only be imagined. The effects of these developments will be profound and will touch virtually every human being's life.

Although we are hurtling into the future faster than any generation before us, and it is difficult to predict precisely what the economic future will be, one thing is certain: capitalism will be the economic system of choice and it will help bring about political and social change as well as the chance to improve the standard of living around the world. Before examining why capitalism is likely to thrive in the future, however, we must first examine why some people think capitalism must eventually fail. Only then can we gain a better understanding of capitalism's inherent strengths.

Why the Pessimists Are Wrong

Many economists and philosophers hold a gloomy opinion in respect to the long-term prospects of capitalism. They cite various reasons, which are worthy to study so that we can arrive at our own conclusions regarding capitalism's future.

Concerns for capitalism's long-term viability begins with Adam Smith, who was one of the first economists to understand capitalism's power and scope. Smith believed that capitalism, if not hindered by excessive state regulations and interference, would in time bring about a general rise in the standard of living and well-being for all people who participate in the system. In time, wealth – or at least the comforts associated with a quality life – would become widespread and society would become complacent. There would be little need for hard work, innovation, and the drive to amass capital, all of which are cornerstones of capitalism. Even as economic growth slowed, a growing population would continue to use the resources the economy provides, eventually reaching the point where a nation consumed more than it produced. This would lead to serious disruption of the economy and society. Side-effects of the deteriorating state of the economy would be moral decline and social decay.

Smith's analysis is based upon the view that once having become prosperous, or "comfortable" enough in one's life, people would lose the drive to achieve and the spirit of capitalism would inevitably die. When that happened, the economic and social systems dependent upon capitalism would crumble.

A careful study of history, however, hardly gives one the impression that capitalism has so enhanced life around the world that few people are willing to become entrepreneurs. The opposite is apparent with more people than ever starting businesses and creating new products. A powerful motivating force of capitalism is the human will to achieve and that will seems to be as strong, if not stronger, than ever. If Smith's view of capitalism's future is ever to be realized, it will not happen for a very long time.

Karl Marx was another man who saw a dismal future for capitalism. Marx believed that capitalism, by its very nature, is subject to periods of major disruption and chaos. Recessions, depressions, wars, crises brought about by monopolies or cartels, or severe shortages of resources are just some of the events that can cause turmoil in markets, supply, and demand. Capitalism to Marx is inefficient and incapable of meeting the needs of most people. It will, in his view, gradually fade into socialism because a socialist system is more able to meet the needs of the greatest number of people. The rejection of socialism and communism by nations around the world during the last quarter of the 20th century, however, casts serious doubts on Marx's prediction. Capitalism has bankrupted both socialism and communism and remains the dominant economic force in the world.

Yet another major theorist who believed that capitalism would eventually decline is John Maynard Keynes. His analysis of the operations of market principles led him to conclude that any market-driven economic system would be plagued by serious underemployment, leading to social strain and an eventual break-down of the economy. Keynes would likely have trouble explaining how the U.S. economy of the last decade is running at near-full employment while making impressive gains within a period of low inflation.

Finally, there is Joseph Schumpeter. According to Schumpeter, who published his views in *Capitalism, Socialism, and Democracy* in 1942, capitalism will one day fall victim to its own successes. He scoffs at other economists who try to find weaknesses in capitalism's dynamics and instead points out that capitalism undermines moral authority, weakening every institution it touches. He calls this a rational attitude that undermines the values upon which society, and capitalism itself, is founded. To Schumpeter, the entrepreneurs are elites, who invariably rise to the top of the social order and in time they will bring about a economic system that is based more on socialism than capitalism. Entrepreneurs, along with the government, will thus manage the economy. To Schumpeter, the transformation of capitalism into socialism is slow, subtle, and unstoppable.

Some people might say that Bill Gates and other powerful entrepreneurs are examples that prove Schumpeter right. Gates and his software giant Microsoft are so powerful, their influence so vast, that Gates's decisions regarding which future software applications to develop in fact result in a de-facto management of the economy. As other companies scramble to compete with Microsoft, or design products to operate on Microsoft's software, they are compeled by Microsoft's sheer size and influence to adjust their plans and products. This is an indirect management to be sure, but management nonetheless.

Joseph Schumpeter's ideas are certainly worth serious consideration. However, like the others who predict the demise of capitalism, he concentrates his analysis on only a portion of an extremely complex system of demand, supply, and markets. Although Microsoft currently maintains an enormous share of the software market, competitors lurk around every corner. Just as Bill Gates created his Windows operating system, which quickly came to dominate the software industry, innovators are undoubtedly working on the software and technology of the future. Who is to say with certainty that one, or many, of these new systems will not supplant Windows in the future just as Windows supplanted previous operating systems? In a free-market economy, companies are never guaranteed success.

As the success of Bill Gates and other entrepreneurs continually demonstrates in a capitalist system, the individual with the new idea or the person who is willing to work harder than his colleagues will achieve greater success than others. Capitalism functions most effectively when individuals enjoy economic opportunity. Ayn Rand, a major supporter of capitalism, has pointed out that capitalism is closely interwoven with individual rights, chiefly that people have the right to pursue their goals and live their lives for their own benefit. Because capitalism offers them the chance to do so, it is a part of the very fabric of Western moral and political thought.

Ludwig von Mises, a major figure of the Austrian school of economics and another supporter of capitalism, believes that capitalism provides benefits to all members of society. Unquestionably, capitalism has raised the standard of living in every nation and region where it is prominent.

Moreover, the opportunities it presents are available to all. As one economist has said: "Good ideas can always find a market through hard work."

This comment arises from the philosophy that underlies capitalism: people have the right to pursue their own livelihood and future, using their abilities to achieve their personal goals.

If one is to attempt to envision the future of capitalism and speculate on its decline, he or she must avoid the temptation of focusing his or her analysis on just some components of capitalism and concentrate on the whole, which is an impossible task. Capitalism is too big, too complex, and too far-reaching for simple or partial analysis. To consider the future of capitalism, one must take the whole of it, analyze what it does, and then project if it is likely to continue doing so. Based on historical evidence and current trends, it seems unlikely that capitalism will begin a decline any time soon.

The New Economy of the 21st Century

During the last quarter of the 20th century but especially during the past 15 years, the U.S. economy has undergone fundamental changes. These changes have occurred within a capitalist framework, and indeed were possible and were supported by the components of a capitalist system. Unfortunately, whenever a discussion of the so-called New Economy arises, it is inevitable that politics comes into play, muddying the facts and adding controversy to the issues. (Note that the New Economy has many names: the Information Economy, the Digital Economy, the Technology Economy, etc.)

For many people, particularly on the political left, the New Economy represents the worst threats and abuses of capitalism. To these people the New Economy, which not even the most brilliant economists fully understand yet, thwarts the movement for economic equality and widens the gap between the haves and the have-nots. In an attempt to gain support for their views, these individuals and groups frequently exaggerate examples of the negative aspects of the economy while downplaying the positives. They claim that the new global economy has resulted in massive disruption of the labor force, a reduction in "good" jobs, a plateauing of mediocre wages, growing income inequality, and a general worldwide despoiling of the environment. Many of these individuals call for increased governmental regulation of the economy and trade restrictions. They would shackle capitalism in an effort to improve it, regardless that capitalism operates most efficiently in an environment of minimal regulation.

While the New Global Economy without question is bringing about great changes, the changes remain firmly founded in a capitalist setting. And while no one can legitimately disagree that some people have not benefited from the changes as much as others, for most people the changes have been decidedly positive. Led by the United States, global trade has been on the upswing for years. Research and innovation have spurred the creation of countless new products that have improved the lives of people on every continent. Technology has rocketed us into a future where the dreams of yesterday are the reality of today. More people have more opportunities than ever before; more people enjoy a higher standard of living than any generation before; more people enjoy better health and live longer and have more active lives than ever before. All of this is due to the economic and social benefits brought about by capitalism.

Following are some facts about the New Economy:

- From 1987 to 1996, manufacturing output, adjusted for inflation, increased 27% in the U.S.
- Despite the general perception of massive reductions in manufacturing jobs, between 1987 and 1996 manufacturing employment in the U.S. declined by only 1.4%.
- During the years 1989 through 1998 high-paying jobs increased 20% and low-paying jobs increased by 10%, with the percentage of jobs between the high and low ends remaining about the same.
- A common perception of the New Economy is that great numbers of middle class managerial positions have been lost to corporate downsizing, but the reality is that between the years 1989 to 1998, three million new middle level managerial positions have been added to the overall workforce. More workers than ever are changing jobs, but they are not losing them nor are they remaining unemployed for long periods.
- Technology is an important component of the daily operations of most businesses. Virtually all businesses rely on computers for some aspect of their work, whether in research, design, production, accounting, or communications. Currently, about 2 million jobs in the U.S. are considered to be "high-tech" positions, with average pay being about $50,000 annually. This is about 73% more than the average non-tech U.S. occupation. High-tech positions are increasing rapidly. Many computer and technology companies, for example, are having great trouble filling positions.

- Only two out of every 10 workers in the U.S. today is involved in manufacturing. The other eight work in jobs that focus on information, research, marketing, or the providing of services.

Without question the world economy, and especially the U.S. economy, has undergone and continues to undergo a fundamental change as we enter the new millennium. Technological advances that were only envisioned by futurists but a few years ago, fast, comprehensive telecommunications that have connected the world, and of course, the Internet all have helped to radically alter the way of business. New start-ups are able to sell to the global community from the moment they begin operations, while long established multinational corporations must scramble to reinvent themselves to take advantage of the opportunities inherent in the New Economy. Companies that are innovative, flexible, and able to adjust to the changing conditions of the market place are the ones that will prosper.

Perhaps the greatest change to the world's economy since the Industrial Revolution has been creation of the Internet. Not only is the Internet a conduit for communication and information, it is fast becoming the equivalent of an immense digital mega-mall and in the process changing the world's economy. E-commerce can easily be termed e-capitalism. Five years ago, most Americans rarely shopped on-line because the idea of making purchases over the Internet was new. Today Americans buy millions of products or services on-line, from automobiles to xylophones.

Technology is essential to the New Economy as the following examples demonstrate:

- The manufacturing plant that relies on computerized inventories to speed products to customers.
- The small architectural firm that uses computer software to show designs to clients.
- The company with offices on the east and west coasts of the U.S. whose computers are linked via the Internet, enabling its staff on the different coasts to work on the same projects simultaneously.
- The pharmaceutical researcher who utilizes cutting- edge software to design a new antibiotic that has the potential to save millions of lives.
- The farmer in Southeast Asia who uses genetically enhanced rice to grow a hardier crop.
- The husband and wife team of specialty leather products who sell their products over the Internet.
- The plumber who has a phone/fax/cellular system that enables him to keep in touch with his customers even while on the road.
- The publisher that uses computers and powerful software to design and typeset books.
- The surgeon who employs the latest tools in laser technology to reduce the sizes of incisions during surgical procedures.
- The investor who tracks stocks and bonds on his computer, buying and selling as the market changes.
- The international commodities trader who relies on computers to keep abreast of world makrets.

- The small bus company that utilizes computers and specialized software to identify the most efficient routes for its drivers.
- The major corporation that uses robots for monotonous labor, freeing more of its human workforce to engage in the design and marketing of its products.

These are just a few examples of how individuals and businesses of the New Economy utilize technology. While it is obvious that none of these people and companies, and others like them, are operating as they would have 25 years ago, it is also clear that any economic enterprise depends on human initiative, efficiency, and an appreciation of the market forces of supply and demand to be successful. In that the New Economy is not much different than the capitalist economies of the past.

Some critics of the New Economy worry that with the growing interconnectedness of global trade, worldwide recessions and expansions will have greater fluctuations and affect more people than previous boom and bust cycles. According to these individuals, should the American economy – or any other major economy – falter, it is likely to drag the rest of the world to recession. As the economies of other nations spiral downward, this will only deepen the recession everywhere. Indeed, these critics contend that a serious recession in any major economic region has the potential to severely disrupt economies elsewhere.

Such concerns have not been born out in fact. When the Asian economic crisis began in 1997, many economists predicted that the collapse of many of Asia's great economies would send a tidal wave of recession to every corner of the world. Many people warned that the economic expansion in the U.S. was about to end – suddenly and with grave results.

None of these predictions proved true. Although the Asian economic crisis unquestionably wrecked havoc across the East, the U.S. economy barely registered the slightest disruption. Not only did the broad diversification of U.S. companies help the country withstand the turbulence caused by Asian markets, but global trade with other regions of the world enabled U.S. companies to adjust their sales and marketing efforts to the changing economic conditions.

When examined closely, it also became obvious that the prime causes of the Asian economic crisis were not related to increased globalization or the New Economy, but rather the reality that most of Asia's economies had not adapted their financial institutions and business operations to take full advantage of the New Economy. In many Asian countries, import tariffs and restraints on foreign investment limit competition and foster inefficiency in domestic firms. In others, a cozy relationship between government and financial institutions helped to create an inflexible financial system that is reluctant to adapt to changing conditions. One positive result of the economic crisis has been the movement of some Asian governments to initiate the economic policies that will result in greater competition and more open markets.

Several elements are emerging that will distinguish capitalism of the 21st century from the capitalist models of the past. While demand, supply, and market forces will continue to be the foundation of the world's major economies, information, innovation, and the ability to adapt quickly to changing economic conditions will assume a greater role in determining the success of a company or enterprise. These factors will establish a company's ability to compete in increasingly competitive markets. In the past, a company's competitive edge was a result of factors such as its facilities (modern facilities usually meant greater efficiency), assets (companies with strong assets were usually better able to weather unexpected fluctuations in economic activity), financing (companies that could draw upon sources of capital could likewise remain steady in turbulent economies), and workforce (skilled, efficient workers meant high productivity). Such factors are no longer enough in a global economy that races ahead on cutting-edge technology and in which competition is truly worldwide.

As we move into the new millennium, capitalism will operate at its most efficient in the absence of state regulation. Government should recede to a minimalist role, its predominant focus being to provide security for its citizens and protect them from economic abuse.

Following is a summary of the key factors of capitalism of the past and the model into which capitalism is evolving:

- In capitalism of the past, markets were relatively stable, despite economic fluctuations. In the emerging "new" capitalism, markets are dynamic and prone to sudden changes. Companies must be able to respond quickly to changing market conditions if they are to be successful.
- In the past, competition was local, regional, national, or in some cases international. Today competition is global. The smallest firms can achieve a large global presence through the Internet.
- Because of the slower pace of innovation and change, companies of the past tended to be stable where lifelong employment was possible. Today, the economic environment is one of opportunity

and risk yet also of potentially great rewards. More than ever workers change jobs in an effort to advance their careers.

- In the past, capital, including workforce, were the main factors of economic growth. Innovation, information, and flexibility are the major elements today.
- Workers in the past were expected to possess skills specifically related to their occupation; today workers are encouraged to bring multiple skills to their jobs as well as continue to pursue education, which aids in flexibility.
- While research was important in the past, it is crucial today because research results in innovation.
- In the past, the state has tried to manage economic growth through regulation. In the emerging model of capitalism, states would be wiser to promote growth by enacting policies that provide for economic opportunities.

Capitalism has always provided people with the opportunity to pursue their self-interest, which benefits society as a whole. When individuals are allowed to prosper economically through their own efforts, they create wealth which increases economic opportunities for others, thereby raising the general standard of living.

Although critics contend that under capitalism wealth inevitably becomes concentrated in a small segment of the population, capitalism in fact increases wealth for everyone. The vast majority of the citizens of capitalist nations enjoy more wealth, greater economic, career, and cultural opportunities, and better health care than any generation before them. Even those who comprise the bottom fifth of capitalist societies have more access to social safety nets than did the poor of the past. Moreover, the poor are not locked into the substratums of society. Through education and hard work, they can realize the vast opportunities offered by capitalism. The success brought about by capitalism is undeniable.

Chapter 4

Entrepreneurs in the 21st Century

The word *entrepreneur* comes to us from the French word *entreprendre*, meaning "to undertake or begin." Today entrepreneur has a somewhat broader meaning and describes an individual who develops a product to market, begins, organizes, and manages a business or economic enterprise for the purpose of making a profit.

Entrepreneurs have been around since the beginning of human civilization. At one time they were the fellows who, for payment of some kind, ferried others across a river, produced and sold goods, or grew surplus crops which enabled them to trade their surplus for the items or services of others. The entrepreneur of the 21st century is living during a period of vast economic opportunity in which his only limitations are his own vision, drive, and spirit. Every corner of the world offers fertile ground for the establishment and growth of new ideas and new businesses.

Just as there is no "born" entrepreneur, no stereotypical personality of an entrepreneur, no nation which has embraced capitalism is closed to entrepreneurship. Indeed, entrepreneurs provide the power of capitalism, their ideas and innovations driving economies forward. Whereas the United States and other Western nations, which have a long tradition of supporting entrepreneurs, remain centers of research and innovation where new ideas are turned into reality every day, many of the world's emerging nations offer unbounded opportunities. Consider all the features consumers in advanced nations take for granted – state-of-the-art communications, technology, a plethora of appliances and products that make life enjoyable and simpler, quality health care, security – and then consider that many people in emerging nations throughout the world are only now beginning to benefit from the wonders of our modern age, and the opportunities for entrepreneurs in these lands become apparent. Clearly in the coming years much of the Third World will offer some of the greatest opportunities for entrepreneurs.

Anybody who develops the proper mindset can become an entrepreneur. Being an entrepreneur is not related to a particular age or background. Some people know from the days of their childhood that they want to create and manage a business. For others, they may not recognize the entrepreneurial spirit until well into their adult years. And for still others, they may embark upon an entrepreneurial quest after they have retired from their previous career. It is not important when an individual begins the journey of entrepreneurship, but rather, once begun, what course he takes and to what destination he arrives.

The Fundamental Characteristics of Entrepreneurs

While age or background don't matter, entrepreneurs share several fundamental characteristics. So basic are these characteristics to success, that they transcend history. In the way they develop, pursue, and build their ideas, the entrepreneurs of the past are much like the entrepreneurs of the present and future. Most entrepreneurs share the following traits to one degree or another.

Successful entrepreneurs find a marketable idea. Not only do they find a marketable idea, they believe that they can develop it so that the end product or service will be in demand. Entrepreneurs are not afraid to dream, they are not afraid to try, and they are not afraid of risking failure.

Look at it this way. Every business behind every product or service that you use began as an entrepreneur's idea. From General Motors, IBM, and Microsoft to the gas station at the intersection down the street or the convenience store on the corner, every company had a starting point. It began with a dream that was formulated into an idea, and from there was developed into reality.

Just because someone has an idea for a better mousetrap does not mean his idea will turn into a profitable venture, however. To be developed successfully ideas for products or services must be marketable. This means that they must satisfy a need of consumers at a price reasonable enough for consumers to buy and the business to realize a profit.

Successful entrepreneurs meticulously research an idea's marketability to determine its overall potential. Careful research also enables an entrepreneur to gain a full understanding of the idea and all its implications. Often, such research leads to still more ideas. While an entrepreneur must maintain belief in his idea, and hold an optimistic vision for its success, he must also evaluate its potential realistically. If the idea's marketability is suspect, the wise entrepreneur will not pursue it but instead turn his or her attention to a new idea. Many entrepreneurs consider several ideas before deciding on one to pursue.

Even as an entrepreneur must believe in his idea, he must believe in himself, in his ability to develop the idea for a new product or service to the fullest potential. Confidence enables entrepreneurs to withstand the obstacles that inevitably rise up and threaten to block the development of their ideas. Although there are always random factors that severely affect the development and success of a new product or service, the entrepreneur who has researched his idea thoroughly, evaluated its potential marketability realistically, and addresses the process of development confidently will improve his chances for overall success.

Successful entrepreneurs think creatively. They constantly search for ideas that can satisfy the unmet needs of potential buyers and then work to develop those ideas. Entrepreneurs look at markets in nontraditional ways and try to uncover new ways to meet demand. While it is not necessary to re-invent the wheel, there may be a demand for developing a new production process for making wheels. Although certain factors are common to virtually all successful businesses – offering a desired product or service, for example – no two businesses are run in precisely the same manner. Businesses that apply creativity and innovation in their daily operations tend to be more successful than those that don't.

Creativity is a broad term that is not easily defined. In its most practical it means to produce something new. This might be a product, a service, a method or process, a work of art, literature, or music, or simply an idea. Creativity cannot be forced, but it can be stimulated and enhanced. Creative entrepreneurs, for example, often look at the world in an unconventional manner. They are open to new ideas and view situations and problems beyond the limitations of tradition or custom. Such individuals always look for fresh ways to do things. They are willing to bend and even break the rules of convention, risking failure because they believe in their ideas and themselves. These people approach problems from various perspectives, put themselves into the shoes of others, and evaluate conditions from different angles. They are not afraid to put the "cart before the horse" just to see how this new arrangement might work out. Whenever creative people consider a problem, they always look for relationships and connections. Sometimes they might not solve the original problem, but they will come up with another winning idea instead. Moreover, it is not unusual for one winning idea to lead to several others.

Successful entrepreneurs are goal-oriented. They have specific objectives in mind for their business and the development of their products and/or services. They possess a vision for the future, and plan a course that will achieve their goals.

Although they have clear goals, they are also able to revise their plans in accordance with changing economic conditions. They attempt to anticipate the unexpected and generally have a backup plan ready. No matter how well planned you might be, countless factors out of your control can disrupt the best strategies and you must be able to adapt as necessary if you are to attain your objectives. Goals should be looked upon as ends, and plans should be viewed as the means to those ends.

Successful entrepreneurs think big and see the big picture. Bill Gates and Microsoft are an excellent example here. After developing Windows, the operating system that runs close to 90% of the world's computers, Gates could have simply applied his energies to improving his software. This was not the big picture, however. Upon the successful development and marketing of Windows, Microsoft expanded into several other areas, including numerous types of software, Internet browses, and even its own Internet network, MSN. Gates has also explored alliances with other major companies, particularly cable companies for he realizes that the faster hook-ups and wider bandwidth cable can provide are certainly a significant part of the Internet's future.

Entrepreneurs who focus on the big picture usually enjoy more success than those who remain restrained in their thinking. Concentrating on the big picture helps you see relationships and opportunities that you might other miss.

Successful entrepreneurs possess the ability to share their vision of the future with others. Not only are they able to communicate their ideas well, they are able to inspire others of the practicality and potential of their ideas. They are able to convince others that their goals are attainable. This is especially true in regard to business associates, employees, financial institutions, and potential customers. Obviously, in order to share their vision of the future, entrepreneurs must have researched their ideas fully and have a clear understanding of their goals as well as a plan for achieving them. Having a new idea is not enough; you must be able to show others how you can develop that idea into a marketable product or service.

Successful entrepreneurs are willing to assume risks. Risk is an undeniable factor in each entrepreneurial enterprise. No matter how novel your idea for a new product or service may be, no matter how thoroughly you research its market potential, no matter how diligently you set goals and formulate a practical business plan, things can go wrong. The market you anticipated may evaporate, a competitor may grab the major portion of the market, or you may encounter unexpected labor or production problems that make it unprofitable to continue the venture for the long-term. Even with what may appear to be a sure winning idea, there is always risk.

While you can never fully anticipate and evaluate all the risks that might threaten your venture, you can reduce the chance for failure by carefully assessing as many of the potential risks that you can. As you do, you must continually ask yourself if the risks fall within your acceptable level. How much risk are you comfortable with? Which risks are unacceptable? How might you reduce the risks? You should always imagine the worst that can happen, and ask yourself how you will be affected should your venture fail? Without question, you must not risk more than you can afford or are willing to lose.

Successful entrepreneurs are determined doers. They are men and women who take action. They don't sit back and wait for others to develop their ideas; rather they become involved in all aspects of their venture.

When confronted by obstacles, they refuse to give up. They will keep trying to find solutions to problems, rework their business plan, or perhaps revise their goals, but they won't give up until they are certain beyond any doubt that the potential market for their idea is not enough to sustain continued development. Developing new ideas, and a new business, is a long arduous process. The average time period for the typical new business to become profitable is three to five years. Many businesses take even longer than that. Entrepreneurs need a healthy amount of persistence to nurture their ideas from imagination to a product or service that fills a need and earns an acceptable profit.

Successful entrepreneurs don't count failures; they count only their successes. It took Thomas Edison and countless "failures" before he created the first lightbulb. Rather than viewing his repeated mistakes and disappointments as failures, Edison looked upon them as part of the process of learning. By finding out all the ways that failed to make a lightbulb, he eventually discovered the best way to produce one. Entrepreneurs accept setbacks as potholes on the road to commercial success. Learning from mistakes in the end helps an entrepreneur to create a better product or service.

Finding Marketable Ideas

Ideas that can be turned into marketable products and services can be found everywhere. Entrepreneurs observe the world around them, study people and their needs and desires, and determine how they can help satisfy those desires. Every profitable product and service, every business, and every corporation began as an idea. Consider the following:

- Henry Ford, known for many innovations he brought to the car manufacturing business, will perhaps best be remembered as the man who created the assembly line and initiating the age of mass production.
- Walt Disney, an artist/cartoonist, realized the staggering potential of animation and built his dream on a mouse that is now known around the world.
- Bette Nesmith, a secretary, became tired of the seemingly ceaseless task of correcting mistakes on typewritten pages. Her idea was a liquid correction fluid.

- Art Frye, a researcher for 3M, sang in his church choir. Realizing choir singers could use a bookmark that wouldn't fall out of their hymnals, Frye developed Post-it notes.
- Ray Kroc, a milk shake blender salesman, saw potential for hamburger drive-in restaurants that offered fast service and reasonable prices. He eventually founded McDonald's.
- Mary Kay Ash recognized a need of women for a line of cosmetics that were both alluring and affordable, and she went on to found Mary Kay Cosmetics.
- Stephen Jobs dreamed of a practical, user-friendly computer long before the dominance of Microsoft and Windows. He invented the Apple computer and built the company of the same name.
- Howard Schultz believed that people enjoy coffee and would support a chain of coffee stores. He went on to found Starbucks.
- Eileen Ford saw the need for a professional modeling firm and created the Ford Model Agency.
- Jenny Craig realized the need for a practical plan for weight loss and founded the Jenny Craig Diet Centers.
- Ed Lowe's father was in the clay business, and sold small amounts to people for use with their cats. Although his father never realized the potential of that, Ed did. After buying the business from his father, he developed "Kitty Litter."
- Fred Smith, against the advice of many others, believed that he could compete against the U.S. Postal Service. When he first formed Federal Express, many people gave him little chance of

surviving his first year, but FedEx now is one of the dominant delivery services in the world.

These are just some examples of entrepreneurs. Men and women like them are found in virtually every field, building dreams for themselves and others.

Even though they may identify many potentially profitable ideas, successful entrepreneurs focus only on those which match their interests, experiences, and personalities. If you don't have a true interest in your venture, it is unlikely that you will be able to remain committed to it, particularly during difficult periods. Similarly, the more experience you have in the field, the easier it will be to grow and manage your idea. Wise entrepreneurs also select ventures which match their personalities. If, for example, you are the type of individual who values at least some free time, you should not choose a business that requires you to be on call 24 hours a day. The individual who is knowledgeable about and enjoys finance would likely be suited to start a company that offers financial guidance rather than attempting to establish and operate a food franchise (no matter how much he may like to eat).

The astute entrepreneur is careful to select a business that has strong potential in a specific market. Many would-be entrepreneurs become convinced their idea for a new product or service will be well received by consumers, even though they have not fully explored its market potential. There are countless entrepreneurs who, unfortunately, have learned that not every good idea has a market large enough to make a company profitable. Selecting a market with strong potential greatly increases the chances for success.

Without question, the global economy presents entrepreneurs with countless opportunities. In new emerging industries, entrepreneurs that start out with a basic idea, often expand and revise their ideas as they go along because the field changes so fast. Sometimes, entrepreneurs in hot fields such as technology revise their goals and plans almost constantly as they adapt to changing market conditions.

Crucial to choosing an idea to develop is research. No matter how much you believe your idea will prove to be profitable, you court enormous risk without gathering thorough, accurate information on all facets of your venture. Successful entrepreneurs understand as much as possible about their ideas and potential markability. Note the following:

- You must learn as much as you can about your potential market. Ask yourself how your idea is either novel or how it can improve an existing product or service. Be sure to assess all market factors that might affect your product or service.

- Estimate your costs of production, labor, and marketing as accurately as you can, then evaluate them according to your financial resources. Remember that it often takes a new business three to five years to become profitable.

- Consider your competition. Are your competitors well established? Do any of them command market share? If yes, will you be able to field a reasonably priced market or service that will be able to seize part of the market? What are your realistic chances of gaining enough market share to realize a profit? What "edge" will your product or service enjoy over the competition?

While it is always nice to be first and offer a new product or service, entering an established field provides you with the opportunity to analyze your competitors and improve upon their products or services. Consumers are always happy to welcome products or services that are priced fairly and that meet their needs.

The Changing Business Models

Since the early days of the Industrial Revolution and well into the dominance of the Consumer Society, business models did not change much. Factories were places where manufacturing was done, retailers were physical sites where people could purchase products and services, and service companies focused their operations on some sort of service. The various components of a capitalist economy could be rather neatly organized in to categories. The old models still persist, of course, but there are new ones as well.

While there are many traditional manufacturers, many companies that call themselves – and are perceived as – manufacturers may not produce a single item they sell. Instead they may subcontract production responsibilities to other manufacturers and then merely assemble the products on their own sites. This may be a more efficient and profitable way of conducting business, particularly if the company is located in an area where labor and manufacturing costs are high. Such companies typically own the product, including control of patents, trademarks, copyrights, and licensing rights, and most also manage design, marketing, distribution, sales and service. However, they no longer satisfy the old definition of a manufacturer.

The traditional retailer has changed, too. Most major retailers have established a presence on the Internet, selling their goods in cyberspace. Many also sell their goods through catalogs. Some sell only via the Internet or catalogs. Many major retailers also provide service for the products they sell, and some even have set up manufacturing operations and produce their own goods, which they sell under their own name.

The lines between retailers and service firms have also blurred. Many major service firms now sell retail items – just think of how credit card companies include inserts selling things as sundry as perfume, luggage, and wristwatches – and some retailers offer a host of services.

Businesses enjoy more flexibility than ever before, affording entrepreneurs more options than ever. As you consider an idea that you might develop into a successful product or service, you need not feel constrained by the old business models. Indeed you can develop your idea and business in a manner that is most efficient for the achievement of your goals and is most likely to be successful.

Alternatives to Starting a Business

These are exciting days for entrepreneurs. As we move into the 21st century, entrepreneurial opportunities are not bounded by one's own ideas or ability to build a business. The world economy is so vast and there are so many variations of the traditional business models, that many entrepreneurs decide to pursue their dreams by purchasing an existing company, buying a franchise or distributorship, or licensing an existing technology, production method, or product. Each is an alternative to taking an idea and developing it into a profitable product or service on your own.

Buying an Existing Company

When you buy an existing company, you gain the advantage of having marketable products or services, facilities, cashflow, personnel, and customers. You know what your expenses and income are, and, if you have conducted careful research, you should have a good understanding of the company's potential shortcomings as well as potentials. Rather than needing to spend time on developing products and/or services, and set up the operations of your company from the ground up, all of the pieces for potential growth are already in place.

Although when you buy an existing business you do not have the freedom of creating the company as you might prefer for the company has its operations and routines in place – and you buy its problems and obligations as well as its strengths – you still will have the chance to make changes. There are many ways you can change the company, for example by expanding its product line, increasing marketing, and attracting more customers.

In some cases, entrepreneurs have been known to purchase a company and within a rather short while refocus its energies and operations entirely. A small financial planning firm, for instance, can be turned into a full service financial company offering its clients not only financial advice, but the convenience of tax preparation, securities purchase, and estate planning. Building on its original client base and positive reputation, the company can easily attract new clients through the offering of additional services. Another example is the small software developer that focuses its operations in a particular field – games, for example – but which realizes it can expand into other areas. Perhaps it might offer educational titles that are designed around games that support what students are learning in their various subjects.

Before purchasing any company, you must carefully evaluate the advantages you would gain over starting your own business. What would you gain by buying a company? Established image? Established operations? Product or service recognition? A customer base? Cash flow? Evaluate these factors against those of starting your own business? How do the factors compare? You would certainly have more freedom in building the business precisely in the manner you wished. But do you have the resources, finances, and time to do this? If you are developing a new product or service, are you certain it will be profitable? Do you have the expertise to establish a business? You must assess the asking price of any business and determine not only if the price is fair, but if it would be less expensive to start a new business.

If you decide to purchase a company, you should not hesitate to retain appropriate counsel. An attorney knowledgeable in business acquisitions can help you to conduct a comprehensive review of the business, including:

- Review the business's products and/or services and evaluate their market demand. Also evaluate all factors that might affect supply and demand. For example, a company whose production operations rely on a raw materials for which there might be an upcoming shortage could experience production problems, particularly for the short-term.

- Assess the company's overall expenses, sales, and profits. Look for any hidden costs.
- Evaluate the company's facilities and basic operations, paying close attention to any areas that might require a major expenditures. (Aging factories or offices that have fallen behind the technology curve can be costly to improve.)
- Try to make yourself an "expert" in the operations of the company before you buy it so that you are familiar with its various strengths and weaknesses.
- Evaluate the company's contracts, commitments, obligations, etc. to make certain that you are aware of any legal liabilities for which you will assume responsibilities.

Purchasing a Franchise

A franchise is an independently owned business within the framework of a larger system. Because the franchisee (the individual who purchases the franchise) benefits from the franchise name and support of the overall system, the risks are often less than starting a business and developing a product or service line.

In a typical franchise arrangement, the entrepreneur who is to be the franchisee, enters into a contractual agreement with the owner of the franchise system, which may be an individual, partnership, or corporation. The new owner pays an upfront fee to "buy" the franchise, and is required to pay regular royalties and fees to the owners of the franchise system for the right to use the name of the franchise in his business. The franchise system owner also assists the new franchise owner with the establishment and operation of the franchise. A major benefit many franchise's provide is name recognition and coordinated regional and national advertising. Who, after all, is not familiar with McDonald's golden Arches? McDonald's is just one example of a franchise. Most major restaurant, hotel, and retail chains are franchises.

While the risk of buying a franchise is lower than starting your own business, there are still risks. You are responsible for the operation of your franchise. Although the owners of the franchise system will provide you with guidance, you are bound by your agreement and must satisfy the franchise's requirements. If you purchase a restaurant franchise, for example, you will probably not have the right to alter the appearance of the facility in a major way, nor would you have the right to radically change the menu. Moreover, if you fail to manage the business effectively, you court eventual bankruptcy.

Before entering into any franchise agreement, be sure to consult knowledgeable counsel and carefully consider the following:

- The franchise system overall is healthy and profitable.
- The franchise system possesses a positive image and enjoys easy name recognition.
- The franchise system is noted for providing the assistance it promises. (If possible, contact other franchise owners of the system and ask them about their overall experiences.)
- The location for your business is one that is likely to provide a strong market.

- You possess the experience, skills, resources, and financial backing to ensure that you will make your business successful.

While you can expect support from the overall system, because the owner of the franchise system wants you to succeed for this means greater profits for him, the system will not support a failing operation overlong. Still, as owner of a franchise, you will be in command of your own destiny, and if you manage the franchise well you can buy additional facilities or even establish yourself in other types of businesses.

Purchasing a Distributorship

A distributorship is similar to a franchise. Under a common distributorship agreement, an individual or company enters into a contractual agreement with the manufacturer of a product to "distribute," or bring, the product to market. The owner of a distributorship is thus a type of middleman, assuming the marketing of a product on behalf of the manufacturer. This arrangement benefits both the manufacturer and the distributor: the manufacturer is able to concentrate on designing and producing his products while the distributor focuses his energies on marketing.

Like a franchise, a distributorship enables an entrepreneur to own his or her business without assuming as much risk as starting a business and developing a product line. Still, there are reasons for caution. You must be certain that the manufacturer for whom you are the distributor can supply the products he has promised, and you must be certain that demand for these products will remain high enough to afford you reasonable profits. In the first case, you may not have products to sell, and in the latter you may be left with products you can't sell. Further, you must be sure that you have the knowledge, experience, and ability to market the products effectively.

Owning a distributorship may not be as exciting as creating new products that arise from you own ideas, and building a business of your own, but a successful distributorship can provide you with a fine style of living and be the springboard to other ventures. Buying a distributorship can be the first step of your entrepreneurship.

Licensing

Licensing can be a valuable option for the developer of an idea because it limits the risk he assumes in development. Licensing is common in many industries, most notably clothing, electronics, and software.

Many entrepreneurs who create a product or develop an idea for a new product but do not want to manufacture and distribute the product themselves license the manufacturing and distribution rights to an individual or company. The licensee – the party who obtains the rights – then pays the entrepreneur a royalty, or percentage of the income, he earns from the company. In some cases, an entrepreneur might develop a product that will benefit from a trademark affiliation owned by another company. The entrepreneur prefers to retain responsibility for manufacturing and distribution, but he is willing to pay a royalty to the owner of the trademark in return for being able to use it with his product. This can greatly enhance sales by giving the entrepreneur's product instant name recognition.

While licensing limits risk in comparison to developing, manufacturing, and distributing an entirely new product, there still are some potential downsides of which the practical entrepreneur is aware. If you have developed a new product, you must fully protect and retain all of the intellectual property rights such as patents, copyrights, and trademarks of your product. This will reduce the chances that the licensee may try to assume control of your idea. By retaining all intellectual rights, you will maintain a large measure of control. You must also make certain that the licensee manufacturers your product according to your specifications and markets the product effectively. To ensure that the licensee fulfills his part of the licensing agreement, you should include clearly measurable production and sales standards, as well as the right to license others to manufacture and distribute your product should the original licensee fall short of the agreed on production and sales targets.

Licensing is not, obviously, for every entrepreneur. Many entrepreneurs prefer to be involved in all aspects of their idea's development and marketing. For those who wish to limit their involvement in production and distribution, however, licensing can be a satisfying option.

Entrepreneurship: An Engine for Building Wealth

The old adage that you never get rich working for someone else was true in the past and remains just as true today. A review of the world's successful individuals reveals that most of these men and women gained success because of their ideas, which they developed into new products or services. Most of these people at one time or another started and managed their own companies where they were able to aggressively pursue the development of their ideas. Many of these people had many innovative ideas and started more than one company.

Although their backgrounds may vary and their product ideas may be different, all of these individuals share the motivation to develop a new product or service. They are not merely content to "work" for someone else, but are willing to take the risk to develop products of their own. In so doing they not only enjoy the excitement of developing their ideas and building a business, but they also have the chance to realize personal and financial success.

Chapter 5

Becoming a Successful Entrepreneur

Many people dream about becoming entrepreneurs, and many actually achieve their dreams. Unfortunately, many, many more fall short. This is often not because of the lack of enthusiasm or the willingness to work hard, but rather because the would-be entrepreneur slipped into one of the many traps that lurk along the road to success. Understanding these traps that can confound the entrepreneurial spirit, eventually snuffing thát spirit out, can be most helpful to the prospective entrepreneur. When you know the barriers that may block your objectives, you are better equipped to either avoid or overcome obstacles that may slow you down or stop you.

Perhaps most importantly, a prospective entrepreneur must believe in himself. He must believe in his ideas, for of such belief is the strength of commitment made. If you believe that your idea, once developed, will have a market and will be in demand, you will be more likely to pursue it through the long course of development. If belief or commitment is lacking, it is unlikely that an entrepreneur will be able to build his idea into a marketable product or service. If he lacks faith in himself, he is already defeated for every obstacle he encounters will slow his progress more than the one before until in time he gives up. When he strongly believes in himself and his idea, the road ahead becomes markedly smoother.

No less important is the entrepreneur's background and experience. Bringing a new idea to market is a difficult and demanding undertaking. Most successful entrepreneurs develop products or services in areas in which they possess personal expertise. Knowledge of the field helps an entrepreneur to plot a realistic course as he develops his idea, while understanding the market and his competitors enables him to reject strategies that are likely to prove inefficient. Of course, some entrepreneurs enter fields in which they may not have much background, but almost invariably these men and women are willing to learn as much as possible about their product or service and market, and they are also willing to hire professionals and consultants who can help them make the appropriate business decisions.

Prospective entrepreneurs do not permit themselves to be bound or limited by tradition or convention. They are alert to new ways of doing things and keen to bring new products and services to market. Many emerging nations, for example, do not have a strong tradition of entrepreneurship. In the past these countries have relied on Western innovation, and only now are developing economies built on free market principles. Their populations have little experience with entrepreneurship. However, as they rush into the 21st century and build state-of-the-art telecommunications systems, modern infrastructures, and witness the growth of a consumer class, these lands promise vast opportunities for entrepreneurs. Residents of these countries should not permit their vision to be restricted by the past, but they should instead seek out ways to become active participants in their nation's growing economy. Without question some of the greatest entrepreneurial opportunities will be found in Asia, Africa, Central America and South America.

While some people, particularly those who live in male-dominated societies, believe that men are more competent as entrepreneurs than women, there is little truth to this belief. Indeed, in most countries that have a long history of entrepreneurial activity, women and men prove to be equally able to begin and manage their own businesses and bring their ideas for products and services to market. For the last several years, in fact, more than half of the new business ventures in the United States have been started by women. Entrepreneurial success does not rely on gender, a point that women everywhere but especially in many of the emerging nations need to understand.

In a similar fashion, entrepreneurial success does not stem from race. Entrepreneurs are found among every race, every creed, and every ethnic group. While it is true that some groups have had a historical advantage to becoming entrepreneurs, the New Economy has broken down the old constraints. It is not important who an individual is anymore, but rather what is important are his ideas and the products or services he offers for sale. Consider e-commerce for a moment. Consumers buy millions of products over the Internet without ever thinking who – what nationality, color, or religion – the owner of the web site might be. What matters most is the need the product or service satisfies and its cost.

Overcoming the Fear of Failure

There is yet another factor that successful entrepreneurs overcome: the fear of failure. Indeed, the fear of failure can be one of the most difficult challenges an entrepreneur faces. Even after identifying a new idea and conducting the research necessary to prove that the idea is marketable and likely to result in a product or service that will enjoy strong demand, many prospective entrepreneurs balk at taking the steps that will lead to the realization of their goals. Despite the facts that they stand a good chance of marketing their idea successfully, they hesitate to begin, afraid of the consequences should they fail.

Fear of failure may arise from several sources. A prospective entrepreneur may harbor, deep within, the fear that his idea is not truly marketable – in spite of the research he conducted that says it is. He may feel that he does not possess the traits necessary to become an entrepreneur. He may worry that he will not be able to obtain the needed financing, or he may not be able to assemble the staff he will need, or he may simply not believe in himself, or his idea, enough.

The fear of failure can be paralyzing. Although all of the other factors – experience, a marketable idea, a competitive edge, and financial resources – all suggest that an entrepreneur will be successful in his venture, the fear of failure can undermine confidence and prevent him from taking the steps to begin developing his idea into a profitable business.

All entrepreneurs struggle with the fear of failure, but the successful ones overcome their worries and concerns. They know that fear can prevent them from achieving their goals and they refuse to permit it to do so.

Although fear is one of the most powerful human emotions, there are strategies that can help you to reduce and manage it. Confront your fears armed with the following:

- Analyze your fear. Ask yourself from what is it arising? Do you lack confidence? Are you afraid that your idea is not truly marketable? Are you afraid that your competitors control too much of the market? Identifying your fear is the first step to overcoming it, for once recognized you can take action to alleviate it. If you have thoroughly researched your idea, market, and competition and have found that the development of your idea will likely result in a successful venture, your confidence will receive a substantial boost. If you are still not convinced, conduct more research until you become certain that you have a good chance for success.

- Focus your attention on succeeding and don't permit yourself to think about failure. Keep looking forward rather than back. As long as you are moving toward your goals, you are succeeding.

- View setbacks as nothing more than delays on your road to success. When problems arise, confront them with the knowledge that they can be solved through creativity, innovation, and hard work. Look upon failures as opportunities that encourage you to move forward in another direction. There are usually several ways to achieve your goals. Successful entrepreneurs understand that failure is always a possibility, but they never let it stop them from developing their ideas into marketable products and services.

- Be aware that most entrepreneurs fail with at least one venture, and sometimes several. However, even after several failures many entrepreneurs go on to build profitable businesses. Many build more than one. Look upon failure as simply part of the process of eventually becoming a successful entrepreneur.

- Avoid making excuses for failures and setbacks. Instead, learn from failure. If you experience failure, analyze what happened so that you don't make the same mistakes again. When you learn from mistakes, you are re-initiating your progress toward your objectives.

- Always remember President Franklin Delano Roosevelt's famous words: "We have nothing to fear but fear itself." Entrepreneurs are wise to heed his advice.

It is a rare entrepreneur who does not contend constantly with the fear of failure. Those who manage their fear are far more likely to become successful than those who are mired in worry.

Dealing with Risk

Every entrepreneur deals with risk. Since most entrepreneurs start out by investing at least a portion of their personal assets in their venture, the risk is quite real. If the venture fails, their investment is lost. Depending upon the amount of an entrepreneur's personal stake, the potential loss can be great.

The risks an entrepreneur faces are not limited to only assets, however. Most entrepreneurs invest an enormous amount of time and work in their venture. They may labor seven days a week, logging several hours a day as they try to build their business from idea to profitable company. Should they fail, their efforts are wasted. In such cases, pride is also at risk. No one likes to fail.

Everyone handles risk in his or her own way. While some people are comfortable taking large risks and others suffer stress at nominal amounts, all successful entrepreneurs are able to manage risk.

You can better manage risk through common sense and some practical strategies. Most importantly, always evaluate the full scope of the risk to which you will be exposed. Consider the following:

- Don't invest your savings or mortgage your house if you can't afford to lose them. Try to limit your investment to assets that you can live without if necessary.
- Don't quit your job if you can't afford to go without a paycheck until your venture is established.
- Determine the zone of risk in which you are comfortable and work within its boundaries. Going beyond the upper boundaries will invariably lead to increased stress, which can impair your ability to make correct decisions.
- Arrange for sufficient financial backing and resources for your venture.
- Make certain that you have researched and analyzed situations and conditions fully before making decisions. Do everything you can to be sure that you are making the right decisions before moving forward.
- Don't permit concerns about risk to cloud your judgment. Remember that risk is always present in any new venture.

If you assume too much risk, you may worry so much about possible losses that your decision-making skills will be undermined. You may hesitate to take the steps necessary to ensure your success. You will lose opportunities and increase your chances of failure, thereby increasing your risk.

A good strategy to manage your feelings about risk is to concentrate on your goals. Develop an attitude that looks forward realistically toward success rather than at the possibility of risk and failure.

Establishing Yourself as an Entrepreneur

Once you have determined that you have a valuable idea that can be developed into a marketable product or service, you must begin the task of building your idea into a business. You must begin the task of establishing yourself as an entrepreneur. Whether you start your business yourself, acquire a company, buy a franchise or distributorship, or license the rights for the production and sale of your idea, you should formulate a business plan. A well conceived plan can help guide you to your goals, much as a road map helps travelers reach their destination.

Although you may have a fine idea for a new product or service, and you are convinced that there will be a market for it, you must also be certain that developing a business based on the idea will indeed provide you with the return you will need to manage the business at a profit. Before you start any business, you should thoroughly evaluate the proposed venture to reduce the chances that you might *not* be successful. Only through comprehensive research and anticipation of the various factors that can undermine your venture can you increase your chances for success.

First off, you must formulate clear goals. You must know precisely what product or service you wish to sell, which markets you wish to penetrate, and how much of your product or service you will need to sell to reach profitability. You also need to project how long it will take you to attain profitability. Noting that most new ventures typically require three to five years to achieve a profit, you must be sure that you have enough financial reserves and resources to carry you through what is likely to be a profitless start-up time.

To help you understand the scope of your venture, you should develop a business plan. Think of a business plan as your blueprint for success. At the least it should provide details about your business's operations, products and/or services, marketing strategies, management, and sources of financing.

A solid business plan is of great aid in securing financing. Most banks, venture-capital firms, and individuals who might consider investing in your venture will be more likely to do so if you can present to them a comprehensive business plan. Not only does this show that you are a serious individual who has considered all the various aspects of his proposed venture, it also helps convince others that your plan has a reasonable chance of being successful. A thorough business plan helps to reduce concern and answer questions backers might have before they have to ask them. Many potential investors will judge you according to your plans for your business.

Any business plan should be built on facts and should avoid unfounded exaggerations. It should be written in a clear, straightforward, enthusiastic style that will arouse interest among investors as well as potential managers and staff. Avoid being too restrained or conservative, but also avoid being too liberal with positive projections and promises. Strive for realistic descriptions, explanations, and expectations.

While business plans vary, depending upon the specific needs of companies, the following figure prominently in most plans:

- *Goals.* You should have clearly defined objectives that describe what your business (or idea) will do and what you hope to accomplish.

- *Basic Operations.* You should include a description of how your venture will be run. Describe its structure and organization. Will you be a sole proprietorship, a partnership, or a subchapter S or C corporation? Will your operations focus on manufacturing? Will your venture concentrate on service? Will it be a combination of production and service? Flowcharts and illustrations can help readers of your plan to visualize the operation of your business.

- *Products and/or Services.* Your plan should include a detailed description of the products and/or services your business will offer. Be sure to include the benefits your products and/or services will offer to potential buyers. What, if anything, is new or unique about the products and/or services you intend to offer?

- *Potential Market.* Your plan should specifically define your market. Who will be likely to buy and use your products and/or services? Why would they be likely to buy from you and not from other companies? What are the economic conditions and trends that might affect sales?

- *The Competition.* Your plan should include detailed information and analysis of your competitors. Who are they and what advantages might they have over you? A major, established company, for example, will likely have vast resources. You should explain in detail your competitive edge, describing how you have a chance to achieve profitability against your competition. If you are entering a market in which others have already established themselves, how do you intend to gain market share?

- *Technology.* Describe the technology that will support your operations. Will you be using any new equipment or processes? How might computers facilitate production, sales, or service operations?

- *Marketing Strategy.* How do you intend to market and promote your products and/or services? You should provide details precisely how you will reach and gain the confidence of potential buyers.

- *Management.* Your plan should include detailed information about you – specifically what your experience and background are and why you are capable to bring your ideas and products and/or services to market successfully. Who will comprise your staff? What are the experiences of these people? Ideally they should have significant expertise in type of business you wish to build and in the market you wish to penetrate. Their past successes should be included in your plan. You should also include consultants and prominent individuals who, although they may not be members of your staff, will be acting in the roles of advisors and whose knowledge can be critical to the success of your venture. Most investors are well aware that a new venture's eventual success (or failure) rests on the ability of its management and staff.

- *Finances.* This part of your business plan should focus on at least the first three years of anticipated expenses and income. You should detail your overall costs – facilities, raw materials, energy, labor, advertising, etc. – as well as projected sales and income.

You should also include an anticipated budget here, balancing your expenses and income. Accurate projections, arising from thorough research and realistic assumptions, can be invaluable for anticipating the cash-flow needs of your venture.

- *Financial Resources.* Your business plan should contain detailed information about your financial backing. You should include sources of start-up money, financial institutions that are willing to provide you with credit, and sources of individual investment. Including your personal investment in the venture often assures potential investors of your sincerity and belief in your venture. After all, if you are not willing to put your money behind your idea, why should they?

- *Cooperative Relationships.* Describe any special relationships you intend to form (or already have formed) with other companies that will support your venture. Often smaller companies can work together to penetrate markets, much to the benefit of all.

While a business plan need not run hundreds of pages, the more accurate the details you include, the more likely you will gain valuable insight and understanding of your venture before you actually start your business. A detailed plan not only offers potential investors an overall summary of your venture, but its formulation encourages you to examine and analyze every aspect of your proposed operation. You begin to gain an understanding and scope of your venture prior to embarking upon its establishment, which helps you to avoid many of the pitfalls that lie waiting to trap entrepreneurs.

One of the most common mistakes of new entrepreneurs, for example, is the underestimating of cash flow needed for operating a new business. Start-up costs can be high, despite the most prudent planning. Facilities may require more than a face-lift, installation of a production line may cost more than anticipated, and energy expenses may be higher than expected because of severe winter weather or an increase in the price of imported fuels. In addition, many first-time entrepreneurs assume that suppliers will grant favorable credit terms, however, it often takes several months to achieve the status where terms are in fact favorable, meaning that credit limits are adequate and payment is based on 30 days.

Yet another common, and for some, costly error is to assume that sales will be steady and will roughly equal levels of inventory. In fact, sales and inventory levels frequently fluctuate and are often out of balance affecting cash reserves. While established companies generally have the credit lines and resources to manage such fluctuations, new companies frequently do not and are prone to cash shortfalls that, if severe enough, can threaten operations.

A third common error inexperienced entrepreneurs make is to maintain an over-optimistic attitude. While confidence is certainly necessary, confidence must be tempered with realism and the understanding that things do go wrong. Indeed, remembering Murphy's Law that anything that can go wrong will go wrong helps to maintain a balanced attitude about a new venture. Never assume, for example, that just because you have conducted the necessary research and have determined that a market exists for your product or service, that the market will develop quickly. The market may, in fact, be there, but it may require time and a liberal amount of advertising to penetrate. This may require an increase in money targeted for ads, a potentially serious problem if money is in short supply and financial sources are reluctant to advance more funds. While overconfidence risks deep disappointment, the proper measure of guarded optimism helps you to make the right decisions and maintain the appropriate course even when confronted by the most adverse events.

A business plan is crucial to an entrepreneur as he or she embarks upon a new venture. A solid plan not only details the many aspects of the anticipated business and its products and/or services, but it demonstrates the entrepreneur's overall vision and understanding of the operation of his proposed business. A sound business plan helps an entrepreneur establish himself and his venture and points him toward the achievement of his goals.

The Drive to Succeed

Most successful entrepreneurs share a powerful drive to succeed. In many cases, it is this drive that enables them to overcome the odds that the typical entrepreneur faces when developing a business venture. For most, the odds against success are formidable. Consider what the typical entrepreneur faces when he begins building his idea into a profitable business:

- He possesses the vision and must convince others – spouses, investors, future managers and staff – of the potential of his idea. His belief in his project must be strong enough to overcome disinterest, criticism, and in some cases outright ridicule. Often he must make believers out of unbelievers.
- He may need to continue working at his job while working to develop his idea and start his own business.

- He may need to invest a sizable amount of his own capital, as well as convince lending institutions, venture capital firms, and investors to provide money to fund his start-up operations.
- He may find himself becoming a jack-of-all-trades in his start-up, being the idea man as well as the fellow who shows his crew how to turn his idea into a viable product.
- He will have to marshal the expertise to hire qualified staff and seek the counsel of top consultants to ensure that he is moving his business in the right direction.
- He undoubtedly will need to work long hours, frequently giving up time with family and friends because of the demands of his venture. Arriving at work early and leaving late will be the norm.
- He may suffer some sleepless nights during which he grapples with the decisions he must make. He may even, on occasion, wonder if he has indeed made the right choice to pursue his idea. Few entrepreneurs manage eight hours of sleep each night, with four to six hours being the average for many. It is not uncommon for entrepreneurs to supplement their sleep with brief catnaps during the day. The catnap may not fully compensate for lost sleep but it can rejuvenate the mind and body.
- He will need to maintain a high learning curve. Coming up with a good idea is seldom enough to ensure success. He must keep learning about his product and services, keep abreast of the developments and trends in his field, and work hard to stay ahead of his competition.

- He must, in short, be willing to do what must be done. Hard work and sacrifice are the pillars on which the road to success is built.

Entrepreneurs are found in every country and culture.

They are the dreamers, the men and women who have the better ideas, the individuals who are willing to risk what they have now for a better future. Entrepreneurs are those individuals who possess the drive to succeed.

Seizing the Opportunity

Few successful entrepreneurs wake up one morning with a brilliant idea that they immediately begin to build into a business. Far more common is the individual who yearns to develop his own business, becomes knowledgeable in a particular field, and then recognizes or develops a marketable idea. When the opportunity to act upon his idea occurs, he is usually ready to take the steps necessary to build the idea into a salable product or service. Such individuals are ready to seize opportunity when it comes along. Most successful entrepreneurs prepare to become entrepreneurs long before they develop a marketable idea or think of a new product or service.

While you certainly cannot be entirely prepared for every opportunity, building a solid foundation of readiness results in several advantages. Most importantly, being prepared for opportunity enables you to move ahead when opportunity appears. You need not expend an excessive amount of energy and worry on the first steps, for example, trying to decide whether you should move forward or not. This wastes valuable time and the opportunity can pass before you make your decision. Even worse, you may feel compelled to move forward, making a snap decision which proves to be the wrong one. Being prepared permits you to take advantage of the opportunity from the outset, which can give you a crucial edge over your competition. Being prepared also allows you to focus your energy on your new venture. You need not worry about the preliminaries because you have already attended to them. You are prepared to move forward when the right situation or circumstances arise.

Since the first step in beginning any venture is always the most difficult, being prepared makes this first step much easier. The old saying: "He who hesitates is lost," is most apt for entrepreneurs. Being prepared for opportunity helps you to, recognize the potential benefits a situation presents, avoid hesitation and take advantage of any opportunity that comes your way.

Entrepreneurs are not born, but made. Becoming an entrepreneur is a complex process in which creativity, drive, and vision combine to propel individuals forward to turn their ideas into marketable products and services.

Chapter 6

Bringing Your Idea to Market

You may have an innovative idea for a new product or service, you may possess experience in your field, you may have drive, and you may be willing to work hard, but if you are unable to turn your idea into a marketable product or service, you will not become a successful entrepreneur. This chapter deals with the practical aspects of entrepreneurship and examines the process of building a business.

After developing an idea into a product or service, the entrepreneur must build an infrastructure through which he can mass produce the product or make his service available to potential customers. Along with a physical site on which he can conduct his business, he undoubtedly will need to arrange for financing, create an effective marketing plan, assemble a management team, and put together an efficient labor force. There is no set sequence to these tasks and the entrepreneur is likely to be handling all of them simultaneously. The success to which he accomplishes them generally determines the overall success of his venture.

Marketing

Without an effective plan for marketing – for bringing a product or service to customers – it is unlikely that a company's business will grow to profitability. A detailed marketing strategy is crucial to sell a product or service, and unless that objective is attained little else regarding the business matters. Successful entrepreneurs are well aware of this, and they strongly focus their efforts on reaching their targeted customers.

The development of an effective marketing strategy is essential. While marketing strategies may vary somewhat, depending upon the business, most contain the following elements:

- The target market must be carefully selected. You must know who will be the most likely buyers of your product and/or service. Will they be middle class homeowners? Young adults? Senior citizens? The well-to-do? Will they be men? Women? Married? Single? Divorced? Will your market be teenagers or children? Boys? Girls? Will your market be concentrated in a particular section of the country? Will it be nationwide, or will your market be global in scope? Obviously, the larger your potential market is, the greater are your chances for achieving profitability.
- You must create an image of your product or service that will make it attractive and desirable to the members of your target market. For example, if you intend to sell to young, upscale men and women who think of themselves as being "hip," your product or service should be portrayed as trendy and fashionable for this segment of the population. You must create appeal and desire. Any effective marketing plan creates demand for the product or service among members of the target market.
- You must set a realistic and reasonable price for your product or service. While you must establish the price so that you realize a profit – after taking into account your costs of operation such as research and development, production, labor, and shipping – you must also make sure that your price is not too high. If it is, potential customers will balk at paying it and will likely substitute similar, but cheaper, products or services. Affixing price can be tricky

and often requires much research and analysis. You should seek to set the highest price you can without risking the disapproval of customers. Most consumers are savvy regarding prices, and although most are willing to pay what they consider to be a fair price, these same individuals will often refuse to pay a price that they believe is unfair, particularly if they can find a similar product or service for less cost.

- You must determine how you will promote your product. Will you advertise on TV, on radio, in newspapers and magazines, or will you send direct mail to your potential customers? Will you use billboards? Will you advertise on the Internet? Billboards? Posters? There are many ways through which to reach potential customers, and you must select those that are most effective and at costs within your budget.

- You must decide how you will sell your product or service. Will you distribute your product to retailers? Will you sell from your own facility? Will you sell via the Internet, through mail, or by telephone? You must also decide how you will get your product to market, and make provisions for arranging for transport and shipping.

Marketing is, without doubt, the most critical factor affecting the profitability of a business. It is unquestionably the most important action you can take that will make potential customers aware of your product or service. You may have a revolutionary product or service, one that offers significant benefits to potential customers at a very reasonable price, but if your customers don't know about it, you won't achieve much sales. While a strong effective marketing campaign can always present your product or service in a favorable light to potential customers, it can make even an average product or service seem superior to those of your competitors.

At the heart of every marketing plan is the customer. While many new entrepreneurs are aware of this fundamental principle and believe they have placed customers first, in fact they develop their marketing around their product or service without giving enough consideration to the people to whom they expect to sell. Successful entrepreneurs understand that the key to effective marketing is built around the benefits customers can expect to receive from purchasing a product or service. You must put yourself in the shoes of your potential customers and ask yourself what benefits or advantages will I gain from the product or service? How will it enhance my life, make my life easier, provide me with more security, or give me satisfaction or gratification? You must be very clear on this: How will the product or service fulfill a specific need of the customer?

Closely linked to the benefits your product or service offers to customers is the overall image of your company. The name of your company, product or service, any slogans, and logos all should work together to offer customers a distinct image of your company and what it offers. Select names and symbols with care and consideration, and be sure to register them so that they remain yours. Names and symbols can be powerful marketing tools. Just about everyone knows McDonald's and recognizes its Golden Arches when they first come into sight. Names, slogans, logos, and symbols should all help to build the image you wish to create for the market you wish to reach. Think of companies such as Ford, GE (General Electric), Microsoft, IBM (International Business

Machines), Nike, FedEx, Burger King, and Toys-R-Us. Each name brings to mind an easily remembered image.

Customers, and the general public as well as competitors, will in large part form an image of your company and products or services based on the way you conduct your business and the value contained in your products or services. A positive image increases sales while a negative one can lead to a loss of business. Your image is how others perceive you. They must perceive you in a favorable light.

One of the major elements that helps to build your image is the value contained in your products or services. Value, of course, results from several factors, both real and perceived, such as quality, service, performance, cost, and distribution. When customers feel that they have received "more" than what they would normally expect – in other words, your product or service performs better than anticipated – customers will form a positive image of you and your company. When customers are dissatisfied or feel that a product or service does not perform as they expected, they will invariably form a negative opinion of the company, unless the company quickly rectifies the situation. Quality is always appreciated and most people are willing to pay more for it. The companies that offer quality through their products or services generally enjoy a broad and loyal customer base.

As you build your company and promote your product or service, you should also promote your company's image. Advertising should highlight positive characteristics of your company's products or services. If, for example, you stress high quality workmanship in your production facilities, you should let your customers know that every effort is taken to ensure that your quality control is of the highest standards. If service after sales is a strong point for your company, let potential customers know that you stand behind your products. If your product outperforms those of the your competition, offer evidence in your advertising of its superiority.

Building a customer base is, without question, crucial to a new business, and your company's marketing plan should detail your philosophy regarding the treatment of your customers. A clear marketing plan and philosophy help to ensure that everyone in your operation understands how important your customers are. Even as your product or service should promise benefits to your customers, you should also make certain that the service you provide your customers is of the highest quality. Never allow any customer to feel that he or she is not special to you; never permit them to feel that you are doing them a "favor" to accept their business; and never promise anything you can't deliver. Keeping customers satisfied is one of the fastest ways to build your business. After all, if a customer is happy with his purchase, he will be likely to return to you again, provided you keep him satisfied. Never forget that for every satisfied customer that keeps returning, an unsatisfied one never comes back. Furthermore, both satisfied and unsatisfied customers often tell others about your company and their experience with it. Whereas positive word-of-mouth advertising can be invaluable, negative comments about your business and its products and services can hurt your sales.

One of the most daunting tasks of marketing is to define your potential market. You must ask yourself who would be willing to buy your product or service and why they would be willing to do so. One of the most effective ways for entrepreneurs with new products or services to build a market is to identify a segment of the population that would be interested in the product or service. Rather than aiming for a broad target population, the entrepreneur focuses on a small, "niche" market. Finding a niche market and satisfying the customers within it is frequently a fast way to profitability because you are "first" and the competition is limited. Successfully satisfying a niche market also enables you to build an image and reputation quickly. There is, of course, no precise method explaining how to do this, other than conducting the necessary research on both your product or service and possible markets, however, there are some guidelines, including:

- In large markets that may at first seem dominated by major companies, search for needs of potential customers that remain unfulfilled. Sometimes large companies became embroiled in such strong competition for a few big products in a particular field that they ignore the needs of a significant segment of their target clientele.
- Seek a niche tied to geography. Perhaps some of your competitors are not interested in providing services to a section of the country. They might be focusing on other areas, they may not want to bother training a new regional sales force, or they may simply feel that the area is not worth "their" time and effort. Although the area may be of little interest to them, it might be an excellent opportunity for a new company that is eager to build a customer base.
- Consider repackaging your product to satisfy the needs of a niche market. Maybe a part of the potential market for a particular product or service is reluctant to buy because the product is too large, or the service comes with too many costly add-ons. These

consumers might welcome the offer of a streamlined, no frills product or service.

- After developing one niche market, always seek others. Fortunes can be made in small but highly productive markets.

Entrepreneurs who have developed a fresh idea that will meet the needs of customers, and who create an effective marketing plan that brings their idea to their potential customers have a greater chance at success than those who merely assume that because demand exists for their product or service they will be able to build a profitable business. An idea for a marketable product or service is the starting point, but virtually all successful companies owe their success to effective marketing.

Managing Risk and Return

All entrepreneurs must manage risk while achieving as high a return on their operations as possible. This can be a difficult goal as return is usually inversely linked to risk. Greater returns generally arise from factors that carry greater risk; the converse is also true that lower risk most often leads to lower returns. Managing what is considered to be an acceptable risk and achieving satisfactory returns therefore becomes an endeavor of balancing numerous sometimes conflicting factors at once. Assuming too great a risk in anticipation of great returns but which instead leads to bankruptcy is hardly the way to build a business.

There are steps you can take to reduce your risks without comprising your potential returns. Most importantly, before committing all of your resources to a product, service, or target market, test market your idea thoroughly. Target a small, representative sample of your potential customer base and market your product or service to the population that comprises the sample. Analyze your sales to determine if the market and your marketing plan will result in enough overall sales so that you will achieve profitability. If you do not achieve the response you anticipated, revise your market plan and test it again. Test marketing is essential, because mistakes in a large marketing plan can be expensive in terms of money and time to correct. Proper test marketing enables you to make adjustments before you have committed substantial funds to a plan that has weaknesses that may undermine its ability to deliver the customers you expect.

After you have created and tested a marketing plan and are satisfied with the results, you still must determine if the results warrant your moving ahead with full-scale marketing. Carefully weigh the risks of full commitment against your expected, potential returns. Only if you are reasonably certain that your risks are acceptable and you will likely achieve a return that will eventually result in profitability within a reasonable time frame should you move ahead.

Financing

One of the biggest reasons for the failure of many entrepreneurial ventures is the inability to raise adequate financing. Although most entrepreneurs invest substantial amounts of their own funds, establishing a business is an expensive undertaking. Most entrepreneurs find that additional sources of funds are necessary. As intimidating as the task of raising money may at first seem, there are many sources of potential financing.

Securing capital can be a complex endeavor, and while this section obviously cannot address the subject in full – entire books are written on how to finance a business – it can highlight some of the most important factors. First, you must realize that raising capital requires hard work and persistence. Most sources of financing are not quick to invest in new ventures. You will need to convince potential sources of the marketability of your idea and the potential for the establishment of a profitable business. It is not unusual for entrepreneurs to present their idea to several sources of financing before securing the backing they require. You must not be discouraged should you be turned down, but simply move on to another potential source.

Sources of financing are numerous. While you should invest some of your own funds in the venture as proof of your sincerity and confidence in your proposal, you should not invest more than you can lose should the worst happen and the venture fail. Other sources of financing you should consider include:

- Relatives and friends (though you must be sure they understand that failure and loss of their investment is always a possibility with any new start-up).
- Local banks.
- Investment banks.
- Credit unions.
- Private investors.
- Venture-capital firms.

- Corporate sponsors (some large corporations are often willing to provide seed money for new companies, particularly if they are to share in eventual profits).
- Government sources (many state and federal programs provide start-up money for new businesses).
- Grants (from corporations, foundations, and institutions).
- A public offering of stock (however this is complex and time consuming).
- Foreign sources (including individuals, companies, and institutions).

In your efforts to raise funding, you should consult an attorney experienced in business law and particularly in business establishment and finance. Not only is the securing of investment in your business subject to a variety of state and federal laws, but you also want to be certain that any agreements you sign with investors are indeed the agreements you think you are signing. Such agreements must be specific as to the obligations and commitments of all parties. The proper counsel is essential to this process.

Many entrepreneurs retain the services of "Finders" or "Brokers" to secure financing. Attorneys, accountants, and investment bankers most often fill this role. Before retaining a finance broker, however, consider both the advantages and disadvantages. A competent broker will have experience and contacts in acquiring financing for companies, and because of his experience he may be able to negotiate better terms than you could. Further, hiring a broker to find financing permits you to devote more time to building your business. The major disadvantage to you is cost. Brokers are expensive and typically take a percentage of the money you raise.

Most brokers will also prefer to have exclusive rights to obtain financing for you, which limits what you may do to secure financing on your own. Finally, you must remember that most brokers also represent other entrepreneurs and businesses; they may not give you as much of their time as you expect. Still, brokers can often obtain more and better financing than most business owners. If you choose to enlist the services of a broker, be sure that the agreement you reach with him is clear, detailing precisely his responsibilities and yours. Any money or commission you pay him should come only upon your receiving of funds.

Of the many ways you can attempt to raise money for your venture, most can be placed in one of two categories: debt financing and equity financing. Debt financing is money that you borrow and must eventually repay, most commonly with interest. Equity financing refers to money that an individual or company invests in your company for a share of ownership. While some entrepreneurs balk at the prospect of equity financing for they wish not to relinquish any control of their venture, others look upon such financing as a practical matter. Owning the majority and controlling stake in your company, for example 60%, may be far better than not being able to finance your venture and owning nothing. Most new businesses are financed through a combination of debt and equity.

Many types of loans and arrangements for financing are possible, and you should consult with appropriate counsel to ensure that the methods you utilize are the most advantageous to you. Loans, for example, may be secured or unsecured, while equity may take the form of common stock, preferred stock, warrants, or even partnerships. If you agree to equity financing, you must consider how much of your company you are willing to give up to obtain the financing. In addition, you should consider the amount of debt you are assuming and make certain that you will be able to pay it back. You should also carefully consider any tax consequences you may face because of acquired debt.

Whenever you are seeking financing, keep the following in mind:

- Remember that raising money will require persistence and heavy marketing on your part.
- Create a list of as many possible sources of income as you can. Include friends, relatives, individual investors, banks, venture-capital firms, corporations, foundations, institutions, grants, federal and state programs, and foreign sources.
- Contact potential investors by phone, or preferably, through a referral and meeting. Avoid mass-mailing. Sources of financing usually receive countless requests for funding; if yours comes with dozens of others in the mail, the chances are great it will be ignored.
- Whenever you discuss your venture with potential investors, be prepared to provide a business plan that highlights the reasons you anticipate achieving profitability. Be organized, be concise, be enthusiastic, and be sure to generate interest in your idea. At the conclusion of your meeting, summarize why investing in your venture will benefit your listeners.
- Try to negotiate terms with several investors. When you have various potential sources of money, you will be less likely to agree to unfavorable terms. Moreover, you will gain confidence to press for the best terms.

- Always follow up a meeting with investors with a phone call. Avoid being pushy, but use the opportunity to emphasize once again the potential of your venture. Be persistent.
- Try to gain the backing of as many investors as possible. In this way, should one or two sources of financing fall through, you will have others on which to rely.
- Be selective in choosing potential investors. Select those with whom you feel comfortable. Some investors, particularly those who are providing a significant amount of financing, might assume they have a right to play the role of an advisor, despite contractual agreements that state no such role. If you sense potential conflict with an investor, you would be probably wise to select another.
- Realize that it is not unusual for a new business to seek investment in various stages of its growth.
- Remember that potential investors will form an opinion of your ideas and your company from you. Always be confident, straightforward, and honest in your presentation.

No matter how worthwhile and marketable your idea may

be, you will encounter investors who feel that your venture has little merit. Some may even tell you so. Don't be disheartened by such words. If you have developed your idea and researched its potential thoroughly, if you have carefully considered your target market and competition, and if you are reasonably certain you have a fair chance to be successful – in short, if you have faith in your idea and yourself – you should forget those investors who fail to recognize the potential of your venture and move on to those who do.

Assembling Your Management Team

Taking your idea and developing it into a marketable product or service is just the beginning of building a profitable business. Once established, you must manage your business so that it grows and prospers. Although many people believe that the typical entrepreneur controls all aspects of his new company, most successful entrepreneurs understand that running a business requires different skills than those needed for creating one and they are quick to assemble a quality management team to control the day-to-day operations. Freed from being concerned with the details of running a company, the entrepreneur then is able to oversee the entire company. This also enables him to concentrate on the development and marketability of products and services.

- Before attempting to choose a management team, you must determine what skills your managers should possess. Ideally, those skills will complement your goals for your business. Try to hire the best people you can, those whose skills surpass yours in the area for which they will be responsible.

- While there are many management styles and theories – conservative, suit and tie, relaxed, objective management, consensus management, etc. – most successful managers share important common traits. In selecting a management team for your company, you should consider the following:

- Candidates should have experience and a strong background in the area for which they will be employed. A marketing executive should have broad experiences in marketing for example.

- Candidates should have a record of success, preferably in the area for which you are hiring them.
- Candidates should make you feel comfortable that you and they will be able to work together. If you don't feel comfortable with them, it is unlikely other staff members and workers will.
- Candidates should be confident, but also realistic in their attitudes and outlooks. A candidate who guarantees results that you find unrealistic either does not know the market and field or he is bragger who is likely to fail.
- Candidates should demonstrate sound business knowledge and judgment during their interview. Comments indicating a lack of understanding of issues, problems, or practices regarding your business should be taken as red flags and should be carefully evaluated.
- Candidates should be able to communicate their goals and objectives for working with you clearly.
- Candidates should have a clear understanding of their personal strengths and weaknesses.
- Candidates should appreciate the value of teamwork.
- Candidates should express their respect of others.
- Candidates should have excitement for your business and what you hope to accomplish. They should be genuinely enthusiastic about the possibility of working for you and your company and should view their possible employment as an opportunity.

Before hiring anyone, always confirm his resume and check references. Never hire anyone merely upon his word or reputation.

A business operated by truly efficient and effective management almost always enjoys a competitive edge over much of its competition. Quality management can make a business that has only average products or services better than it would otherwise be, and it can make a business with strong products or services exceptional.

ICS – An Example of Modern Management

ICS Trust Company Limited, a part of the ICS International group of companies, operates in Hong Kong where it specializes in markets and business operations. With a staff of some 40 highly qualified professionals, ICS offers services to entrepreneurs and companies that cover all aspects of business operations, including incorporation, financing, management, and the investment of profits. Among ICS's clients are multinational corporations, various companies of all sizes, and international investors who seek the services of ICS in investment, tax shelters, and estate planning. Because ICS offers such a wide range of services, it is able to individualize its programs according to the needs of its clients.

Elizabeth L. Thomson is the primary force that moves ICS. Describing herself as a "lawyer by profession" and "an entrepreneur by choice," Thomson takes pride in having helped people around the world to establish and run successful ventures. She takes special pride in having aided many women entrepreneurs in Hong Kong and throughout the East build prosperous businesses.

ICS can help new or established companies enter or expand into the markets of Asia. The firm can assume responsibility for virtually all of a business's operations. Through their contacts, experience, and expertise ICS staff can assist clients in establishing facilities, arranging financing, and maintaining efficient operations as well as obtain the services of factories and shipping firms. ICS can help you to manage your business effectively, so that you can achieve your goals and maximize profits.

To learn more about ICS and how they can help you to attain your business goals, contact:

Mr. Kishore K. Sakhrani, Director
ICS Trust (Asia) Limited
Suite 605-6
Nine Queen's Road, Central
Hong Kong
Phone: +852-2854-4544
Fax: +852-2543-5555

ICS is but one company that offers entrepreneurs the various services that can help them establish and operate a business. Such firms can provide the knowledge and experience new companies need to grow and reach their objectives.

Few entrepreneurs achieve success and build profitable companies alone. The task is simply too overwhelming. In today's business climate powerful global competition ensures that only those companies whose operations are efficient and whose products and services satisfy the needs of customers will prosper. The entrepreneur who develops a marketable idea, establishes a business, and assembles a top management team to help him build and operate his company has a better chance for success than the man who, alone, tries to micro-manage all aspects of his venture.

Chapter 7

International Entrepreneurs: Unlimited Opportunities with Tax Havens

While opportunities for entrepreneurs abound throughout the world in local, regional, and national economies, the entrepreneur who concentrates his efforts on the international scene is able to take advantage of laws designed to foster business, reduce taxes, and promote the rapid building of wealth. Though unfortunate, it is a fact that in many nations, bureaucratic bungling, suffocating laws and regulations, and oppressive tax systems discourage the establishment of businesses. Even worse, once a business has been started in these lands, the economic climate continues to burden the company's operations rather than foster them. In the end, growth is impeded and profits are depressed.

Nations, enclaves, and jurisdictions that encourage foreign investment and the establishment of businesses are known as tax havens. They are places where the governing bodies have passed tax laws favorable to the building and keeping of wealth. In all tax havens, tax burdens are greatly reduced, and in some havens companies enjoy complete freedom from taxes or tax holidays of several years. Consequently, more of the profits generated by an entrepreneur's venture in a tax haven remain his.

While the potential rewards of international entrepreneurship are often greater than those that can be attained in many local, regional, or national economic environments, the challenges the international entrepreneur faces are correspondingly greater too. Foreign laws, customs, and methods of doing business will probably be unfamiliar. Language also can be a problem, although in many places English is common and is the language of business. Entrepreneurs must also realize that although a tax haven's governing body may enact favorable legislation that encourages foreign investment, the locals with whom the entrepreneur may be doing business may harbor distrust toward him. These warnings aside, the greatest opportunities for prospective entrepreneurs await in the international arena of business.

The Value of Investing in a Tax Haven

A tax haven is a country, enclave, or jurisdiction that promotes investment through legislation that creates special tax incentives. The incentives can take many forms: exemptions of specific taxes, reduced rates, or tax holidays. Many tax havens also offer other inducements such as cash grants for training a local labor force, subsidies for equipment or facilities, and agencies that can speed the establishment of a venture. The great attraction of a tax haven for entrepreneurs lies in the fact that the entrepreneur can establish a business and be liable for significantly less taxes than he would have to pay in his home country. In the end, of course, what he does not have to pay the government remains his. Thus, a well-managed business established in a tax haven can often grow faster and become profitable sooner than a similar enterprise located in a high-tax area. Tax havens are also noted for their reduced bureaucracy and red tape. Because they wish to encourage entrepreneurs and investment, laws are passed that foster company formation.

There are many legitimate tax havens around the world, but the entrepreneur needs to be aware that some jurisdictions promote themselves as being friendly to business when in fact they are little different from high-tax states. Of even greater concern are those companies and individuals who offer tax-reducing plans but who are outright con-men whose plans benefit only themselves. By dealing only with legitimate agencies in true tax havens, entrepreneurs can avoid any dubious entanglements and enjoy the many benefits tax havens have to offer.

Entrepreneurs may use one of several methods with which to establish a venture, build a business, and accumulate and protect wealth in the typical tax haven. The following are just a sampling of possibilities:

- Establish a business based on the needs and demands of the locale. Many tax havens provide significant incentives for businesses that are founded in specific sectors of the country the governing body wishes to enhance. For example, jurisdictions that wish to support tourism often offer substantial incentives to entrepreneurs who establish or invest in hotels, restaurants, or other businesses that cater to tourists.

- Establish a branch or division of a company in a tax haven and then expand operations into international markets. Income resulting from operations originating in the tax haven is usually tax free. Many tax havens offer additional incentives – cash grants, for example – for any jobs created by the company within the tax haven that are filled by local people.

- Establish subsidiary manufacturing operations that can sell or lease products to a parent company in the entrepreneur's home country. The operations of the subsidiary will likely be tax free (or at a greatly reduced tax rate), resulting in a maximizing of profits.

- Establish a company within the jurisdiction of a tax haven for the purpose of conducting sub-licensing operations with a global reach.

Areas covered can include royalties, payments in regard to copyrights, patents, models, designs, processes, and formulas. (With such operations, entrepreneurs need to be aware of tax-at-source requirements in some places, and also nations in which double-taxation treaties are in effect, for these factors can affect the tax status and profitability of such ventures.)

- Establish holding companies and trusts. Many tax havens – Nevus and Seychelles are two excellent examples – have legislation that is most favorable to trusts. In many cases, tax-haven trusts can hold foreign currency or foreign currency assets, shielding them from taxes as well as offering superior confidentiality and protecting the assets.

- Establish a company in the tax haven that serves as a base for accumulating dividends, interest, and capital. In many tax havens fund movement is unrestricted because withholding taxes are not assessed.

- Establish a tax haven company whose operations focus on insurance, thereby acquiring insurance premiums and interest income. The company could offer insurance services throughout the world.

- Establish a company whose operations concentrate on international shipping and air transport. Many tax havens welcome such companies and offer flag-of-convenience privileges, meaning that shipowners can register under the tax haven flag and not be subject to their home country's restrictions, regulations, and tax obligations.

- Establish a company that offers consulting services to international clients. Services may include such areas as management, technology, engineering, architecture, or industrial and commercial processes. Because the company is located in the tax haven, income is subjected to low or zero tax rates.

- Establish a company in the tax haven that conducts sales and international commodities trading. In most tax havens income earned from trading is tax free.

- Establish mutual funds, investment trusts, and similar ventures in companies based in the tax haven. Such funds and the proceeds derived from them are free from taxation in the investor's home country.

The suggestions above cover countless possibilities.

Although an entrepreneur is bound by the specific laws he will encounter in the host country, he must also realize that situations may be affected by the laws of his home country. The benefits enjoyed by an American in a specific tax haven are likely to be different than those of citizens of Germany, Italy, and Japan because the tax laws of those countries are different than those of the United States. However, tax havens, in one way or another, can be of benefit to almost every entrepreneur.

While the types of enterprises one can establish in tax havens are virtually limitless – dependent only upon the each tax haven's laws – entrepreneurs must nonetheless give careful consideration to selecting the tax havens they feel will best suit their needs. Laws that govern the types of businesses that will most benefit most in a particular tax haven as well as business formation vary among tax havens, and entrepreneurs should carefully consider the many factors that can impact upon their venture. Having any proposals evaluated by an attorney experienced in tax haven law is essential.

Although his choice of a tax haven will invariably be based upon his venture, needs, and objectives, the following factors generally weigh in heavily on an entrepreneur's decision:

- The tax haven's laws that will specifically affect the entrepreneur's venture.
- The tax haven's physical resources.
- The tax haven's political stability.
- The overall strength and outlook of the tax haven's economy.
- The tax haven's infrastructure.
- The tax haven's international standing.
- The principal language of the tax haven.

Finding the Right Tax Haven

Tax havens are found throughout the world. They can be countries, enclaves, or jurisdictions. There are at least five basic types, although the lines of distinction may blur as some tax havens offer a variety of incentives. Following are the major types and some prominent examples of each.

- Tax havens that do not levy income tax include: Antigua and Barbuda, Anguilla, the Bahamas, Bermuda, the Cayman Islands, and the Turks and Caicos Islands.

- Tax havens that do not tax foreign-source income include: Hong Kong and Panama.
- Tax havens that do not tax foreign-source income of companies owned by non-residents include: Barbados, Guernsey, Jamaica, The Isle of Man, Jersey, Liberia, and Gibraltar.
- Tax havens that provide special incentives and concessions for holding companies include: Austria, Liechtenstein, Luxembourg, the Netherlands, the Netherlands Antilles, and Switzerland.
- Tax havens whose tax laws provide incentives that do not fall within the previous categories but which provide various other significant incentives include: Andorra, the British Virgin Islands, Cyprus, and Macau.

Tax Havens without Income Tax

Following are highlights and selected contact information for tax havens that do not levy income tax. Note that many of these tax havens also offer several other incentives.

Antigua and Barbuda – This island country in the West Indies is quiet and peaceful compared to the glamorous and exotic lifestyles of many Caribbean islands, but life here is pleasant and the islands do not charge tax on personal income.

Contact:

The Antigua and Barbuda Dept. of Tourism and Trade
25 S.E. 2nd Ave.
Suite 300
Miami, FL 33131
Tel: 305-381-6762
Fax: 305-381-7908

The Antigua and Barbuda Dept. of Tourism and Trade
610 Fifth Ave.
Suite 311
New York, NY 10020
Tel: 212-541-4117
Fax: 212-757-1607

The Antigua and Barbuda Dept. of Tourism and Trade
60 Claire Ave., E.
Suite 304
Toronto, Ontario
Canada M4T 1N5
Tel: 416-961-3085
Fax: 416-961-7218

Anguilla – Anguilla is a small island and British dependency located at the northern end of the Leeward Islands in the Caribbean Sea. This tranquil island offers a variety of significant tax incentives, including:

- No personal income tax.

- No corporate taxes.
- No sales taxes.
- No taxes on capital gains.
- No value added tax.
- No taxes on interest.

Contact:

The Anguilla Tourist Board
World Trade Center
Suite 250
San Francisco, CA 94111
Tel: 415-398-3231
Fax: 415-398-3669

The Bahamas – Known primarily for their beauty and as a prime vacation site, the Bahamas are also a major tax haven offering the following incentives:

- No personal income tax.
- No corporate taxes.
- No taxes on dividends.
- No taxes on capital gains.
- No taxes on interest.
- No taxes on royalties.
- No sales tax.
- No payroll tax.

• No taxes on gifts.

• No inheritance taxes or taxes on personal estates.

Contact:

The Bahamas Tourism Office
150 E. 52nd St.
28th Floor North
New York, NY 10022
Tel: 212-758-2777
Fax: 212-753-6531

Bermuda – A group of some 150 islands, Bermuda is located off the coast of North Carolina. A delightful vacation destination, Bermuda is also an excellent tax haven, offering a variety of incentives to both individuals and companies, including:

• No income tax.

• No personal taxes on any kind.

• No taxes on corporate profits.

• No taxes on personal or corporate dividends.

• No capital gains tax.

• No withholding taxes.

• No gift taxes.

• No inheritance taxes.

Contact:

The Bermuda Department of Tourism
205 E. 42nd St.
16th Floor
New York, NY 10017
Tel: 212-818-9800 or 800-223-6106

The Bermuda Department of Tourism
245 Peachtree Center Ave., NE
Suite 803
Atlanta, GA 30303
Tel: 404-524-1541
Fax: 404-586-9933

The Bermuda Department of Tourism
1200 Bay St.
Suite 1004
Toronto, Ontario
Canada M5R 2A5

The Cayman Islands – The Cayman Islands are not only one of the world's fine tourist sites, they are among the best tax havens, offering numerous incentives, including:

- No income tax.
- No direct taxation of any kind.

Contact:

The Cayman Islands Department of Tourism
420 Lexington Ave.
Suite 2733
New York, NY 10170
Tel: 212-682-5582
Fax: 212-986-5123

The Cayman Islands Department of Tourism
6100 Blue Lagoon Dr.
Suite 150
Miami, FL 33126-2085
Tel: 305-266-2300
Fax: 305-267-2932

The Turks and Caicos Islands – Located southeast of the Bahamas, the Turks and Caicos Islands offer an impressive array of tax incentives, including:

- No income tax.
- No tax on corporate dividends.
- No tax on capital gains.
- No withholding tax.
- No tax on property.
- No value added tax.
- No sales tax.

- No taxes on gifts.
- No taxes on inheritance, estates, or successions.

Contact:

The Turks and Caicos Islands Tourist Board
11645 Biscayne Blvd.
Suite 302
North Miami, FL 33181
Tel: 305-891-4117 or 800-241-0824
Fax: 305-891-7096

Contact:
TCIvest
Chief Executive Officer
Hibiscus Square, Pond St.
P.O. Box 105
Grand Turk
Tel: 649-94-62058/2852
Fax: 649-94-61464

Tax Havens That Do Not Levy Tax on Foreign-source Income

For investors and entrepreneurs who receive sizable incomes derived from operations in other countries, not having to pay tax on income from those sources can result in substantial tax reduction. Two tax havens in particular, Hong Kong and Panama, are noted for not taxing such income.

Hong Kong – Although Hong Kong was officially reunited with China on July 1, 1997, and many people predicted that China would slowly crush Hong Kong's dynamic economy, this has not happened and Hong Kong remains a center for business and investment opportunity. Known for its pro-business climate, Hong Kong also offers numerous tax incentives for entrepreneurs, including:

- Only income derived from sources in Hong Kong is taxed.
- No value added tax.
- No sales tax.
- No capital gains tax.
- No withholding tax on dividends.
- No withholding tax on interest.
- Companies are required to pay only a 16% corporate tax, which is among the lowest in the region.

Contact:

Hong Kong Economic and Trade Office
115 East 54th St.
New York, NY 10022
Tel: 212-752-3320
Fax: 212-752-3395

Hong Kong Economic and Trade Office
1520 18th St., NW
Washington, D.C. 20036
Tel: 202-331-8947
Fax: 202-331-8958

Hong Kong Economic and Trade Office
130 Montgomery St.
San Francisco, CA 94104
Tel: 415-835-9300
Fax: 415-421-0646

Hong Kong Economic and Trade Office
174 Saint George St.
Toronto, Ontario
Canada M5R 2M7
Tel: 416-924-5544
Fax: 416-924-3599

Panama – As a link between continents and the passageway between oceans, Panama enjoys an enviable geographical position. It is also envied by many of its neighbors because of the investment it attracts through a powerful set of tax incentives, including:

- Foreign-source income is not subject to tax.
- Projects and ventures within the tourism sector are eligible for numerous incentives, including –

- An exemption from taxes on assets.
- An exemption from taxes on capital.
- An exemption of up to 20 years on real estate taxes.
- An exemption from income tax for 15 years if the project is located in one of nine geographical zones designated for tourist development.

Contact:

Panama Consulate of New York
1212 Avenue of the Americas
10th Floor
New York, NY 10036
Tel: 212-840-2450
Fax: 212-840-2469

Panama Consulate of Washington, D.C.
2862 McGill Terrace, NW
Washington, D.C. 20008
Tel: 202-483-1407
Fax: 202-387-6141

Panama Consulate of Miami
444 Brickell Ave.
Suite 729
Miami, FL 33131
Tel: 305-371-7031
Fax: 305-371-2907

Tax Havens That Do Not Tax Foreign-source Income Of Companies Owned by Non-residents.

Tax havens often specialize in the benefits they offer. The following do not tax the income of companies owned by non-residents when the income originates from foreign sources. Many of these tax havens provide additional advantages as well.

Barbados – The most easterly of the islands in the Caribbean, Barbados is known for the beauty of its beaches, its abundant sunshine, and friendliness of its people. Among international entrepreneurs, it is also known as a prime tax haven, particularly for non-resident entrepreneurs. Under Barbados's tax laws a non-resident is an individual who is present on the island for 182 days or less in a tax year. Such individuals are obligated to pay tax only on income derived from Barbados. Therefore, if no income arises from sources on Barbados, no tax is required. In addition, the island offers a variety of significant tax incentives to companies, as noted in the International Business Companies Act 1991-24. Following are highlights of the major incentives of the Companies Act:

- A tax rate of 2.5% on profits.
- An exemption from local taxes on dividends.
- An exemption from local taxes on interest.
- An exemption from local taxes on fees, royalties, and other incomes paid to non-residents.

- An exemption from taxes and duties on machinery, raw materials, computer equipment, and other items and materials imported to Barbados for the operation of a business.
- An exemption from local taxes on transfers of assets or securities.
- An exemption from exchange controls.
- A guarantee of the above benefits for a period of 15 years.

Contact:

The Barbados Investment and Development Corporation
800 Second Ave.
New York, NY 10017
Tel: 212-867-6420
Fax: 212-682-5496

The Barbados Investment and Development Corporation
5160 Yonge St.
Suite 1800
North York, Ontario
Canada MN2 6L9

Guernsey – One of the Channel Islands, Guernsey is a dependency of Great Britain. Despite its dependency status, it maintains much autonomy, most notably in its tax system which has helped to make the island an excellent site for investment. Companies owned by non-residents are not subject to tax on foreign-source income. In addition, the Guernsey tax code includes:

- No capital gains tax.

- No capital transfer tax.
- No estate duties.
- No inheritance taxes.
- No value added tax.
- No wealth tax.

Contact:

The Administrator
Income Tax Authority
P.O. Box 37, 2 Comet St.
St. Peter Port
Guernsey
Channel Islands GY1 3AZ
Tel: +44-0-1481-724711
Fax: +44-0-1481-713911

Guernsey Financial Services Commission
La Plaiderie Chambers, La Plaiderie
St. Peter Port
Guernsey
Channel Islands GY1 1WG
Tel: +44-0-1481-712706
Fax: +44-0-1481-712010

Guernsey Tourist Board
P.O. Box 23
St. Peter Port
Guernsey
Channel Islands GY1 3AN
Tel: +44-0-1481-726611
Fax: +44-0-1481-721246

Jamaica – Most people think of Jamaica as a tourist site without realizing that the island offers tax-haven advantages to non-residents who own a company there. Jamaica also maintains free zones and has signed tax relief treaties with several nations, including the United States, Great Britain, Canada, Germany, Israel, Sweden, and Norway.

Contact:

The Jamaican Tourist Board
801 Second Ave.
20th Floor
New York, NY 10017
212-856-9727 or 1-800-223-4JTB
Fax: 212-856-9730

The Jamaican Tourist Board
3440 Wilshire Blvd.
Suite 805
Los Angeles, CA 90010
Tel: 213-384-1123 or 1-800-223-4JTB
Fax: 213-384-1780

The Isle of Man – The Isle of Man is located in the Irish Sea, about midway between Northern Ireland and England. Because it is not officially a part of the United Kingdom but rather a possession of the crown, the island exercises a considerable degree of self-government. It is governed by the Court of Tynwald, consisting of an upper house, at the head of which is a Crown-appointed lieutenant governor, and a lower house of elected representatives. The Isle of Man is a little known but significant tax haven, because island companies owned by non-residents are not subject to tax on income originating from foreign sources.

Contact:

The Treasury
Income Tax Division
Douglas
Isle of Man
British Isles IM1 3TX
Tel: +44-0-1624-685400

Jersey – The largest and southernmost of the Channel Islands, Jersey is a dependency of Great Britain that has a unique constitutional relationship with the United Kingdom and enjoys much autonomy. In recent years it has developed into one of the world's premier offshore financial centers. Within its tax code are numerous incentives for entrepreneurs, one of the most notable being that companies owned by non-residents are not subject to tax on foreign-source income.

Contact:

The Jersey Financial Services Commission
P.O. Box 267
Nelson House
David Place
St. Helier
Jersey JE4 8TP
Tel: +44-0-1534-822020
Fax: +44-0-1534-822001

Liberia – Located on the west coast of Africa, Liberia is a nation that looks forward to the future with optimism. Since the end of a 17 year civil war, upon which free and fair elections were held in July of 1997, the country has taken positive steps rebuild its economy and infrastructure. In an attempt to encourage investment, Liberia does not tax foreign-source income for companies owned by non-residents.

Contact:

The Embassy of the Republic of Liberia
5201 16th St., NW
Washington, D.C. 20011
Tel: 202-723-0437
Fax: 202-723-0436

Gibraltar – One of the ancient Pillars of Hercules (old Abila, now Mount Acho at Ceuta, was the other), Gibraltar is a British dependency. It is also an important tax haven, one of its benefits applying to companies owned by non-residents. Income derived from foreign sources for such companies is not subject to tax. In addition, Gibraltar offers numerous significant tax benefits, including:

- No capital gains tax.
- No sales tax.
- No estate duties.

Contact:

The Government of Gibraltar
1156 Fifteenth St., NW
Suite 1100
Washington, D.C. 20005
Tel: 202-452-1108
Fax: 202-452-1109

Tax Havens for Holding Companies

Some tax havens are quite specific in the benefits they offer to companies. The ones listed below, for example, provide the greatest benefits to holding companies.

Austria – This central European country is well known for the vitality of its people, the overall strength of its economy, and the beauty of its mountains. What is not so well known is Austria's rank as a tax haven, especially in regard to holding companies. Moreover, Austria welcomes foreign investors and has seen investment by non-resident individuals and companies increase by 70% since 1994.

Contact:

The Austrian Trade Commission
150 East 52nd St.
New York, NY 10022
Tel: 212-421-5250
Fax: 212-751-4675

The Austrian Trade Commission
11601 Wilshire Blvd.
Suite 2420
Los Angeles, CA 90025
Tel: 310-477-9988
Fax: 310-477-1643

The Commercial Counselor at the Austrian Embassy
1350 Connecticut Ave., NW
Suite 501
Washington, D.C. 20036
Tel: 202-835-8962
Fax: 202-835-8960

Liechtenstein – Positioned in the heart of Europe between Switzerland and Austria, the Principality of Liechtenstein offers entrepreneurs a most favorable business climate. Liechtenstein is a highly industrialized nation with a strong tradition and belief in free enterprise. Its tax legislation, which includes rates among the lowest in the world, is extremely favorable for holding companies. When a holding company in Liechtenstein operates as an enterprise that administers capital or assets of other enterprises exclusively, and it is formed as a legal personality and entered in the public registry, it will enjoy the following tax privileges:

- Exemptions on all assets and income.
- A reduction of the capital tax.
- An exemption from all taxes on profits and earnings.
- A reduction of the formation stamp duty.
- Complete secrecy regarding tax matters.

In addition, Liechtenstein levies no income taxes against companies domiciled in the country if the company does not receive income from Liechtenstein sources.

Contact:

The Liechtenstein Tourist Office
P.O. Box 139
FL–9490 - Vaduz
Liechtenstein
Tel: +4175-392-11-11

Luxembourg – The Grand Duchy of Luxembourg is a small jurisdiction of Western Europe that enjoys a fine reputation as a tax haven. Well respected for the strength of its financial system, Luxembourg offers special tax benefits to holding companies.

Contact:

Luxembourg National Tourist Office
17 Beekman Place
New York, NY 10022
Tel: 212-935-8888
Fax: 212-935-5896

Economic Ministry
19-21 Boulevard Royal
L-2449 Luxembourg
Tel: +352-478-1
Fax: +352-460448

The Netherlands – In recent years the Netherlands has emerged as one of the prime business sites of Europe. In 1998, the *Economist*

Intelligence Unit labeled the nation as the "No. 1 place to do business – 1999-2003." Several factors account for this, not the least of which is a lowering of corporate and income taxes. In addition to providing special allowances for holding companies, the Dutch tax code includes the following:

- Overall tax rates are among the most competitive in the European market.
- Various tax credits, including special regional credits.
- No withholding taxes on outgoing royalties.
- No withholding taxes on outgoing interest.
- Tax rulings can be negotiated in advance, providing from four to eight years of certainty regarding taxable income.

Contact:

NFIA
One Rockefeller Plaza
New York, NY 10020
Tel: 212-246-1434
Fax: 212-246-9769

NFIA
303 East Wacker Dr.
Suite 411
Chicago, IL 60601
Tel: 312-616-8400
Fax: 312-616-8408

NFIA
901 Mariner's Island Blvd.
Suite 595
San Mateo, CA 94404
Tel: 650-349-8848
Fax: 650-349-8201

The Netherlands Antilles – Curacao, Bonaire, St. Maarten, St. Eustatius, and Saba comprise the islands of the Netherlands Antilles. Although the islands are a part of the Kingdom of the Netherlands, the Netherlands Antilles Federation possesses significant autonomy. The islands, especially Curacao which is the largest and most developed, enjoy special tax provisions and various tax treaties that have resulted in the establishment of many companies. Holding companies enjoy particular favor, however, a large number of offshore investment, finance, royalty, insurance, real estate, and shipping companies also are located on the islands.

Contact:

Curacao Tourism and Development Bureau
19 Pietermaal
P.O. Box 3266 Willemstad
Curacao
Netherlands Antilles
Tel: 599-9-461-6000
Fax: 599-9-461-2305

The Curacao Tourist Board
475 Park Avenue South
Suite 2000
New York, NY 10016
Tel: 212-683-7660 or 800-270-3350
Fax: 212-683-9337

The Curacao Tourist Board
330 Biscayne Blvd.
Miami, FL 33132
Tel: 305-374-5811 or 800-445-8266
Fax: 305-374-6741

Switzerland – Arguably the primary finance center of the world, Switzerland offers investors and entrepreneurs a host of significant investment opportunities. Of the many options for investment, holding companies that limit the scope of their business to non-Swiss corporations are eligible for an exemption of taxes, provided they are located in the Swiss cantons of Fribourg, Zug, or Glarus.

Contact:
Consulate General of Switzerland
633 Third Ave., 30th Floor
New York, NY 10017-6706
Tel: 212-599-5700
Fax: 212-599-4266

Consulate General of Switzerland
Olympia Center, Ste 2301
737 N. Michigan Ave.
Chicago, IL 60611
Tel: 312-915-0061
Fax: 312-915-0388

Consulate General of Switzerland
456 Montgomery St.
Suite 1500
San Francisco, CA 94104-1233
Tel: 415-788-2272
Fax: 415-788-1402

Special Tax Havens

While many tax havens offer various incentives and advantages, some provide special incentives that can be advantageous to certain entrepreneurs and investors. The following tax havens are ideal for specific enterprises.

Andorra – Located between France and Spain in the Pyrenees, the Principality of Andorra is a land of picture-postcard beauty. It possesses a strong economy, cherishes privacy in financial matters, and has no personal taxes, making it an attractive site for investors.

Contact:

Ministry of Tourism and Culture
Prat de la Creu, 62
Andorra la Vella
Tel: 875700
Fax: 860184

Travel Agencies Association of Andorra
C/Na M. Pla, 19-21
Andorra la Vella
Tel: 869867
Fax: 869867

The British Virgin Islands – Located about sixty miles east of Puerto Rico, the principal islands of the British Virgin Islands are Tortola and Virgin Gorda. The islands are a prime site for the establishment of International Business Companies, with some 300,000 IBCs registered. Companies are drawn to the BVI because of the islands' British territorial status, political and economic stability, English legal system, enhanced privacy, modern financial system and modern infrastructure. While many nations have tried to lure companies with various benefits, few can compare to what the BVI offer, including:

- No taxes on IBCs.
- Extremely low tax rates for domestic companies.
- No taxes on capital gains.
- No taxes on estates.

- No taxes of any type on wealth.

Contact:

BVI Financial Services
777 Third Ave., 23rd Floor
New York, NY 10017
Tel: 212-546-1627
Fax: 212-546-1768

Director of Financial Services
Government of the British Virgin Islands
Financial Services Department
Pasea Estate
Road Town
British Virgin Islands
Tel: +1-284-494-4190
Fax: +1-284-494-5016

Cyprus – In recent years the government of Cyprus has enacted legislation which has transformed Cyprus into a tax haven that offers substantial benefits to International Business Companies. According to Cypriot tax law, an IBC is a company whose shares belong directly or indirectly to non-Cyprus nationals, and its income is derived from sources outside of Cyprus. IBCs are eligible for various advantages, including:

- A 4.25% tax on declared corporate profit in Cyprus.
- No capital gains tax.
- No withholding tax.

• No value added tax.

Contact:

Cyprus Embassy Trade Center
13 East 40th St.
New York, NY 10016
Tel: 212-213-9100
Fax: 212-685-7316

Embassy of the Republic of Cyprus
2211 R. St., NW
Washington, D.C. 20008
Tel: 202-462-5772
Fax: 202-483-6710

Ireland – The Republic of Ireland (not to be confused with Northern Ireland which is a part of Great Britain) possesses only about 1% of the European Union's population but attracts close to 25% of the U.S. investment in manufacturing in Europe. For several years the nation has been developing into a major financial services center and specialized tax haven. The following incentives are available:

- Foreign income (excepting income from the United Kingdom) is not subject to tax for non-domiciled residents, provided the income is not remitted to Ireland.
- Manufacturing companies may be eligible for a 10% corporate tax rate, which is well below the typical rate of 40%. For qualifying companies, the 10% rate is available until the year 2010.

- International financial services companies located in Dublin may be eligible for a 10% tax rate on profits derived from certified activities. Also, they may be eligible for an exemption of 20 years on local property taxes, a 100% write-off for expenditures for new equipment during the first year of operation, a 100% write-off for the costs of new facilities in the first year for owners who occupy their sites, and a 54% write-off for new building costs in the first year for lessors.
- Companies that receive permission to conduct their business in the Shannon Airport Customs Free Zone may be eligible for a tax rate of 10% through December 2005.
- As these tax incentives expire, Ireland has decided to lower its national tax rate probably to a total of 12%.

Contact:

The Irish Industrial Development Authority
17th Floor
345 Park Ave.
New York, NY 10154
Tel: 212-750-4300
Fax: 212-750-7357

The Irish Industrial Development Authority
P.O. Box 190129
Atlanta, GA 31119-0129
Tel: 770-351-8474
Fax: 770-351-8568

The Irish Industrial Development Authority
75 E. Wacker Dr.
Suite 600
Chicago, IL 60601-3708
Tel: 312-236-0222
Fax: 312-236-3407

The Irish Tourist Board
345 Park Ave.
New York, NY 10154
Tel: 212-418-0800 or 800-223-6470
Fax: 212-371-9052

Macau – The Macau Special Administration Region (Macau SAR) of the People's Republic of China is only 60 km southwest of Hong Kong. Because of its close proximity to China, Hong Kong, and the vast markets of the East, Macau offers an exceptional opportunity to businesses that wish to trade in Asia. To encourage investment, Macau offers numerous significant incentives, including:

- Total exemption of property tax for real estate purchases exclusively for industrial purposes.
- Possible total exemption of industrial tax (based upon the company complying with specific requirements).
- Possible 50% reduction of corporate tax (based upon the company complying with specific requirements).

Contact:

Department of Economic Affairs
Direccao dos Servicos de Economomia
Rua Dr. Pedro Jose Lobo, 1-3
Edif, Luso-Internacional, 25th Floor
Macau
Tel: 853-562622
Fax: 853-590310

Macau Trade and Investment Promotion Institute
Av. Da Amizade 918
Edf. World Trade Centre, 4 and 5 andares
Macau
Tel: 853-710528
Fax: 853-590309

Macau SAR Government Tourist Office
9 Largo do Senado
P.O. Box 3006
Macau
Tel: 853-315566
Fax: 853-510104

Madeira – Often referred to as the "Pearl of the Atlantic," Madeira is the largest island of a group of islands located near the Atlantic's prime shipping lanes, about 625 miles from Lisbon and 545 miles from Africa. While Madeira is an official part of Portugal, the islands remain an autonomous region and have enacted legislation that makes them an impressive tax haven. A variety of tax incentives are available to individuals as well as domestic and foreign companies.

Incentives for individuals include:

- An exemption from income and withholding taxes on dividends and interest on loans of shareholders received by investors in companies that operate from within the free zone.
- An exemption from transfer, gift, and inheritance taxes in regard to the transfer of shares in the capital of companies whose operations are conducted from within the free zone.

Numerous incentives are available to companies that operate in Madeira's free zone, including:

- An exemption from taxes on income derived from business operations in the zone until 2011.
- An exemption from local taxes.
- An exemption from municipal property taxes in regard to income derived from business operations in the free zone.
- An exemption from transfer, gift, and inheritance taxes in regard to the acquiring of real estate necessary for business operations in the free zone.
- An exemption from taxes on capital gains which come as the result of sales of fixed assets.
- An exemption from having to withhold taxes from the payment of royalties.

- An exemption from value added tax on imported goods, provided that the goods are to be stored and/or transferred in the free zone.
- An exemption from having to withhold taxes on interest from loans from foreign banks and also on bonds, provided these funds are used for investment in the free zone.

Additional incentives are available to offshore financial services companies, including:

- An exemption from corporate taxes on all income derived from business operations conducted by the branch office, provided that the operations are conducted entirely with non-residents in Portuguese territory or with other individuals or entities established within the free zone.
- An exemption from withholding taxes on revenues paid by branches in the funding of other business activities, as long as the beneficiaries are non-residents in Portuguese territory or are entities established within the free zone.

Incentives are available to companies involved in trading, trusts, and similar services, including:

- An exemption from corporate taxes on income obtained from business activities until 2011, as long as the company's activities are conducted with entities established within the Madeira International Business Center (MBIC), or with non-residents in Portuguese territory.
- An exemption from corporate taxes on the interest of loans, provided that the contracted entities are established within the

MIBC, the loans are used for operations within the MIBC, and the lenders are non-residents in Portuguese territory.

Shipping companies are eligible for various incentives, including:

- An exemption of tax on profits earned by companies which own ships under the Portuguese flag and transport cargo in international waters.
- An exemption from taxes on dividends that are distributed to shareholders.
- An exemption from duties on the inheritance of shares in a shipping company.
- An exemption from capital gains tax, which would otherwise be payable on the sale or transfer of a ship or shares in a shipping company.
- An exemption from income tax on the salaries of the officers and crews of vessels operating in international waters.

Contact:

Consulate General of Portugal
630 Fifth Ave.
New York, NY 10111
Tel: 212-246-4580 or 212-765-2980
Fax: 212-459-0190

Embassy of Portugal
2125 Kalorama Rd., NW
Washington, D.C. 20008
Tel: 202-328-8610 or 202-328-9025
Fax: 202-462-3726

Malta – Located between Italy and North Africa, Malta, the largest island of a group of islands in the Mediterranean Sea, has been a crossroads between continents throughout its history. Over the centuries Malta has been an important commercial site and today offers several incentives for businesses, including:

- Export companies (whose operations are 95% export-oriented) may be eligible for a tax holiday of 10 years.
- Eligible companies may receive special investment tax credits.
- Eligible companies may receive an accelerated allowance for depreciation.
- Eligible companies may receive reduced rates for reinvested profits.
- Eligible companies may receive duty-free importation of parts and materials, as well as ship various products duty-free to EC countries.
- Eligible companies may enjoy reduced tariffs on products exported to the U.S.

Contact:

The Malta National Tourist Office
Empire State Building
350 Fifth Ave.
Suite 4412
New York, NY 10118
Tel: 212-695-9520
Fax: 212-695-8229

The Embassy of Malta
2017 Connecticut Ave., NW
Washington, D.C. 20008
Tel: 202-462-3611/2
Fax: 202-387-5470

The Malta Development Corporation
P.O. Box 141
Marsa GPO 01
Malta
Tel: +356-667-100
Fax: +356-667-111

St. Kitts and Nevis – This two-island nation located in the Caribbean Sea is rapidly emerging as one of the finest tax havens of the region and offers numerous incentives, including:

- No personal income taxes.
- No sales tax.

- No gift tax.
- No estate duties.
- Corporate holidays from 10 to 15 years are available for eligible companies.

Nevis has also become the site of one of the most flexible and comprehensive asset protection trusts (APT) in the world. Its trust laws are clear, strong, and guarantee a large measure of privacy.

Contact:

Consulate of St. Kitts and Nevis
Economic Affairs Division
414 E. 75th St.
New York, NY 10021
Tel: 212-535-1234
Fax: 212-535-6854

Department of Tourism, St. Kitts and Nevis
Pelican Mall, Bay Rd.
P.O. Box 132
Basseterre, St. Kitts
West Indies
Tel: +1-869-465-2620/4040
Fax: +1-869-465-8794

The Opportunity in Combining Tax Havens

Entrepreneurs are not prevented from using multiple tax havens or tax havens in combination. Indeed, tax havens should be used to their fullest potential, as that is the way entrepreneurs can gain the greatest benefits as they establish and build their enterprises.

Using multiple tax havens is a simple enough matter. The entrepreneur establishes business operations in tax havens based on the advantages the tax havens provide. If, for example, he wishes to establish a holding company, Austria, Liechtenstein, Luxembourg, the Netherlands, the Netherlands Antilles, or Switzerland are good options. If he then wishes to establish a shipping company, the Netherlands Antilles, particularly Curacao, would be an astute choice. By establishing businesses in various tax havens, the entrepreneur would benefit from some of the most advantageous tax laws available. Reduced taxes would enable him to realize greater profits faster, some of which he could use to further capitalize his businesses.

Combining tax havens, although somewhat more complex, is nonetheless an attractive possibility for reducing taxes. Here is a typical example. A tax haven company establishes a Dutch subsidiary. The parent company then licenses patents it holds to the subsidiary. The subsidiary in turn sub-licenses the patents to an American manufacturer. Because of advantageous tax laws, the royalty payments flow to the Dutch subsidiary tax free. The subsidiary then pays the parent company a royalty equal to the one it received from the American manufacturer. The Dutch company avoids paying any tax in the Netherlands because its expenses are equivalent to its income. The final result is that the parent company receives a tax-free royalty. That same royalty, if paid to the company under other circumstances, would have been subject to a 30% U.S. withholding tax.

In most cases, entrepreneurs who wish to establish companies in tax havens need not be concerned with residing in the tax haven country. A branch, subsidiary, or mere "presence" is often enough to maintain a company, while its administrative offices remain in another country. A corporation in the Bahamas, for example, might have its main offices in Belgium and would therefore be subject only to taxation on its Belgian-source income. The Bahamian corporation, however, could conduct business throughout Europe with its income being tax-free in the Bahamas.

A word of caution is necessary here. The use of tax havens can sometimes induce a feeling of overconfidence and exuberance that can carry over into one's management of his business. Because of the tax haven's laws and overall encouragement of business, the entrepreneur may begin to think that his venture can't fail. Moreover, he may mistakenly come to regard the laws of the tax haven as shielding him from tax obligations elsewhere. In legitimate tax havens, the laws are very specific in what a company can and cannot do, and entrepreneurs must familiarize themselves entirely with all laws and regulations that might affect their venture. They must then comply with those laws.

The offshore mutual funds industry contains numerous examples of companies that became so convinced of the benefits they enjoyed in tax havens that they ignored sound business practices. Not being subject to either U.S. or British requirements in regard to the time period securities had to be held to qualify for lower capital-gains tax rates, and not being taxed on their securities trades and deals, many of these companies began engaging in short-term profit-taking and speculation. As long as the right decisions regarding investments were made, the companies did well. Unfortunately, many of them were run by weak management teams and eventually the speculative investments turned out badly. In most cases the storyline was the same: disaster came because the mutual funds were invested in funds that guaranteed to redeem their own shares at prices based on inflated book values. From the start, practical business sense and principles were not used and poor investment choices were made. Many of the companies that made these mistakes eventually became bankrupt.

Entrepreneurs must always remember that the potential benefits a tax haven offers can always be negated by poor management. Quality management, good business acumen, and effective decision-making can enhance the advantages of a tax haven and result in a business that grows rapidly.

As the global economy moves into the 21st century, the opportunities for entrepreneurs have never been greater or more varied. While entrepreneurs certainly can focus their energies on regional ventures, seeking opportunities on a world-wide scale promise the greatest payoffs.

Chapter 8

Opportunities in the Global Marketplace

Perhaps the greatest benefit technology has bestowed upon businesses is that the world's marketplace has shrunk. With relatively inexpensive computers, even small companies can achieve a major presence that reaches into all parts of the world. The business that fifty years ago had little choice but to sell its products and services locally can now sell them everywhere. Because of the continued advanced of technology, which is making the world smaller, and also because much of the world's population are consumers clamoring for products and services, entrepreneurs are well advised to consider enterprises that have global potential.

Unquestionably, the world is a big place and business opportunities abound. How does one begin to select a venture that is likely to be successful? Perhaps the most important step here is to keep an open mind and realize that new business opportunities are appearing every day. Vast markets are emerging in Asia, the Middle East, and Eastern Europe. Africa offers spectacular opportunities for entrepreneurs as much of the continent is underdeveloped but clearly ready to move forward into the future.

The Internet also offers enormous opportunities. Just a few years ago, close to 50% of the companies currently doing business on the Internet had not been created. While it is true that many of these dot-com companies have not yet achieved profitability and are unlikely to, there are many that already are successful and many more that will be. Many have made the men and women who started them millionaires many times over.

But Internet companies are only a part of the entrepreneurial opportunities that are emerging. A close study of international trade magazines and newsletters will likely lead to several possible ideas for establishing a company. Not only may the articles spark ideas, but the listings of overseas companies that desire American products or wish to sell their products to U.S. firms, or wish to represent U.S. companies in other nations, touches upon the scope of international trade today.

Finding Opportunity Overseas

Surveys of entrepreneurs that focus on where they find marketable ideas for overseas ventures consistently identify several sources for uncovering ideas that can be developed into successful products and services. Following are the most common sources, in descending order from most to least important.

- Clients and customers.
- Employees.
- Suppliers.
- Colleagues and other professionals.
- Trade publications.
- Family members.
- Magazines and newspaper articles.
- Distributors.

- Technical literature.
- Consultants.
- Friends.
- Investors.
- Patent filings.
- Libraries.

The above constitute countless sources for ideas.

Entrepreneurs with open minds and active imaginations often find several marketable ideas and must decide which one to pursue.

Most successful entrepreneurs consider the world their marketplace. Even though a business may be doing well in the United States, overseas markets offer new and exciting potentials, including:

- Opportunities for growth.
- A hedge against business fluctuations in U.S. markets.
- A new customer base that might lead to possibilities not yet considered.
- Expansion that surpasses the competition.
- The prestige that comes with doing business globally.
- Increased profitability and the building of personal wealth.

Before you set out to expand into global markets, however, you need to carefully evaluate the market potential and the risks. Unquestionably, penetrating overseas markets comes with additional risks. You will need to cope with a culture that may be unfamiliar, you will need to rely on foreign associates, perhaps communicate in another language or perhaps conduct your business through interpreters. Moreover, you will have to operate within the codes of foreign laws, adhere to unfamiliar business practices and regulations, and may have to make transactions in foreign currencies. Each of these is accompanied with its own set of potential problems. However, the rewards of establishing your business in foreign markets can be profound. Along with achieving rapid expansion and increased profitability, you will realize the deep personal satisfaction that comes with success.

As an entrepreneur, you can sell products, services, and ideas wherever you have the capability. This gives you great latitude in creating a business. You may choose not to establish a venture that has a physical plant, and might instead become a "finder" and do one of the following:

- Find overseas companies that desire products manufactured by American companies, find the American companies that can supply the products, and bring the two companies together. Your efforts would result in a commission (perhaps 5% to 10%) of any deals that are finally brokered.
- Find U.S. companies in search of imported products and match them with overseas suppliers. Again, your fee would be a commission of the value of the closed deal.
- Find overseas sales reps for U.S. companies.
- Find sales reps in the U.S. for foreign companies.

These ideas are not new. Many entrepreneurs have set up companies that engage in these activities, however, there is always room for more.

Consider the case of Mike Johnson. Johnson created an overseas product search and licensing company on an investment of a mere $300. He had no significant prior experience in the field and began with no contacts. There were no special formulas for success except the willingness to work hard. Johnson contacted companies, traveled overseas to meet with representatives, and convinced them that they could use the services his company could provide. He brought American and foreign firms together, and in time represented U.S. companies in countless import-export deals. In four years he earned more than $1 million.

With new companies being formed each day in every nation of the world, the opportunities for assuming the role of laison between companies has never been greater. Entrepreneurs who enjoy travel and negotiation would do well to consider establishing a firm that specializes in matching companies who benefit by working with other companies.

Opportunities in Manufacturing and Exporting

Many companies of many nations have strong demand for U.S. products, creating vast opportunities for entrepreneurs. However, some caution must be exercised whenever a venture in foreign markets is undertaken. Most importantly, cost, proximity, and alternatives to exporting need to be addressed.

Whenever a company located in the United States wishes to sell products which compete directly with the products of foreign companies on their home soil, cost must be scrutinized. In most cases, labor costs in the U.S. will be higher, to which shipping expenses and export duties must be added. Consequently, the prices of the American-made products may increase to levels well above that of the products of their foreign competitors. Even if the American products are of higher quality, this factor may not be able to offset the higher costs. On the other hand, the American company may be able to manufacture the product for less – perhaps due to a greater use of robotics in the manufacturing process – which may result in the product's final cost being on a competitive level, even after all other costs are calculated. Another option is for the American company to establish facilities for overseas production. In all cases, however, overall costs must be accurately analyzed.

Proximity to markets is another factor that must be evaluated with much care. While it is true that technology is making the global marketplace shrink, it also true that manufacturing products near to their markets offers distinct advantages. For example, if products need to be redesigned, close contact with the market is essential. Entrepreneurs may also find that foreign governments are more willing to provide support and incentives to local companies. Ownership often does not matter as much as location. A company that manufactures its products on the soil of the country in which it sells its products is usually more welcome than a company that sends its products in from overseas. Nevertheless, many companies successfully export their products to lands the world over. Indeed, sometimes exporting is the best option.

New entrepreneurs sometimes make the mistake of establishing a company in another country, believing that this will offer more advantages than exporting. While they will enjoy lower shipping costs and will be closer to their markets, they must also be sure that the workforce they can build and the quality control they will be able to maintain will be adequate. Sometimes neither is satisfactory. Despite their promotions, the infrastructure of some places, the quality of the labor pool, and the barrier imposed by different languages can cripple a venture's efforts to achieve profitability.

To circumvent the problems typically associated with manufacturing and exporting, three options have proven to be most useful: contract manufacturing, licensing, and joint venture.

In contract manufacturing, a U.S. company enlists a foreign company to produce the American company's products to the American company's specifications. This is done under the American company's label. This strategy enables a company to establish a presence in a foreign market without assuming the risks that would be present if it was to ship products from the U.S. or establish a subsidiary on foreign soil. Once the market has been penetrated sufficiently, the company may choose to set up a subsidiary, but at this point the risks would be greatly reduced. Many international entrepreneurs take advantage of contract manufacturing as they are building their businesses.

Licensing is another method through which a U.S. company can enter foreign markets successfully. The great advantage of licensing is that it provides a means to gain a share of a foreign market without risking direct investment. In many cases, licensing offers huge potential, however, the entrepreneur must realize that any licensing plan must be carefully structured and every detail spelled out clearly. The services of experienced counsel should be obtained. Important points to consider include:

- Potential licensees should be fully evaluated. Backgrounds should be checked and companies that the entrepreneur suspects may not satisfy his requirements should be rejected.

- Contracts should be worded clearly; there should be no ambiguities or vague terminology. Nothng should be open to interpretation.
- The entrepreneur should be able to control product quality, the brand name, markets, and royalty and other payments.
- The licensing agreement should enable the U.S. company to control the licensee's activities. The entrepreneur, thus, should maintain overall control of the licensing agreement.
- Intellectual property rights, patents, copyrights, trademarks, etc. should remain in the entrepreneur's control. The proper registrations required for intellectual protection should be done in both countries.
- Provision should be made for the development of new products as well as improvements in existing ones. Again, the entrepreneur should maintain control.
- Although the foreign company is likely to resist, the entrepreneur should attempt to gain an equity position in the licensee at the outset of any agreements. If the venture proves successful, obtaining an equity position at this time may prove to be difficult, if not impossible.

Moving beyond the licensing agreement is the joint venture. In this type of business arrangement, the U.S. and foreign company operate in a close relationship with the U.S. company often holding an equity position in the foreign company and having a role (in some cases limited, however) in management. In many licensing agreements, the U.S. company is not permitted a significant role in management decisions, however, the goal of market penetration – which is the major purpose of the arrangement – is attained. As with the other options, careful attention needs to be given to many factors, including:

- Companies considering a joint venture should evaluate each other's business philosophy and methods of operation to determine compatibility. This is particularly true regarding management style and objectives.
- Both companies should be financially sound.
- Both companies should possess effective management teams, which welcome the joint venture and are willing to work enthusiastically for its success.
- Both companies should understand the other's markets, financial policies, and expectations for growth.
- In cases where a foreign company is privately held, the attitudes of the owner's family, as well as his family situation – a looming divorce can severely affect the operation and growth of a privately held company – should be evaluated.

Entrepreneurs who wish to penetrate foreign markets should become as knowledgeable as they can about the markets and also any incentives foreign governments offer to attract business and investment. Tax havens (See Chapter 7) provide specific tax inducements, however, many other incentives are possible, including long-term loans at favorable rates, cash grants for training a local labor force, subsidized facilities, free zones, and governmental agencies whose sole purpose is to streamline the process for establishing a business.

While no one can deny that becoming a successful entrepreneur is hard work, requiring a marketable idea and endless hours in developing that idea and a business to market it, neither can one deny that the rewards of successful entrepreneurship have ever been greater. Opportunities in domestic and international business await those who are willing to explore the endless possibilities.

The Opportunities Are Limitless

Marketable ideas are everywhere. The successful entrepreneur does not permit himself to be bound by traditional thinking. He constantly studies people and their needs and reflects upon ways to satisfy those needs.

Consider the many businesses around you. No matter how big or how small, each was begun by an entrepreneur who recognized a need and developed a product or service to fill it.

Consider William Drayton is an entrepreneur who recognized the desire of people to correct the problems present in our modern society. Drayton, a former law and management professor and McKinsey and Company consultant, founded the organization known as Ashoka, whose purpose is to help solve the world's problems by funding "social entrepreneurs" throughout the world. Over the years, Ashoka, named for a leader who unified India and renounced violence in the third century B.C., has supported close to a thousand Ashoka Fellows in 35 countries in their efforts to improve education, health, the environment, and human rights. Drayton and Ashoka provide venture capital to people whose ideas are designed to support the social good. Ashoka raises money mainly from businesses.

Ashoka Fellows are found in all corners of the world. In Bangladesh, an Ashoka Fellow has developed a program that has reduced the school dropout rate for underprivileged kids by nearly 50%. In Latin America, a program has been developed that educates people about diabetes. Ashoka Fellows are active in the U.S., too. In Boston, a program has been developed for teens that examines social issues through innovative videos.

William Drayton's Ashoka organization is an excellent example of a resourceful idea that had vast marketing potential. Not only do Ashoka Fellows participate in a variety of ventures, their efforts are aimed at improving society.

The Growing Number of Women Entrepreneurs

With the turn of the new century, it is clear that women are gaining a prominent position in the ranks of entrepreneurs. Although the trend is most obvious in the United States where during the last two decades women entrepreneurs and business owners have constituted a substantial part of all new economic ventures, women throughout the world are pursuing entrepreneurship. Consider these facts:

- In the U.S. it is estimated that currently 50% of all new businesses are begun and owned by women.
- Overall, women own 38% of all U.S. companies.
- Since 1987, the number of women-owned ventures in the U.S. has increased from 4.5 million to 9.1 million, and the number continues to increase.

- As of 1999, companies begun and owned by women employed more than 27 million Americans. That is close to three times the number of 1996.
- Women-owned companies in the U.S. account for annual sales of some $3.6 trillion.
- Women are increasingly joining the ranks of entrepreneurs throughout the world.

Most of these women become entrepreneurs for the same reasons men do – they believe they have discovered marketable ideas on which a profitable company can be built, they want to establish and manage their own company, and they want to achieve the success that comes with ownership. While a large percentage of women entrepreneurs have substantial corporate and business experience, many have begun their ventures just a few years out of college. The global economy offers opportunity for everyone.

Although women CEOs are still rare among Fortune 500 corporations, they are well represented among entrepreneurs. Two of the best known and most successful are Martha Stewart and Meg Whitman. Stewart has built her reputation into a household name and markets numerous products under her label, while Whitman is the force behind eBay, having created a multi-million dollar on-line flea market.

The global marketplace offers as many opportunities to women as it does to men. More women than ever are recognizing those opportunities and taking the steps necessary to benefit from them.

Helpful Resources for International Entrepreneurs

The novice entrepreneur who considers venturing into overseas markets may at first find the prospect daunting. As he becomes aware of the myriad possibilities, both positive and negative, he may become discouraged. Fortunately, several agencies offer information and help. Following are some of the most important.

- The Small Business Administration. The SBA offers numerous services and programs designed to help entrepreneurs. Along with holding seminars and conferences on importing and exporting throughout the country at its regional offices, the SBA also maintains the Service Corps of Retired Executives with whom entrepreneurs can consult. These men and women have experience in international business which they are willing to share. Perhaps most importantly, the SBA provides loans to exporters under the SBA Export Revolving Line of Credit Program. The money can be used for a variety of purposes, including foreign labor, the building of inventory, travel expenses, and trade shows.
- State Export Programs. Numerous states maintain programs designed to assist exporters obtain financing. Some also have agencies whose purpose is to help exporters in establishing a presence overseas. Such agencies may help expedite the export process, provide foreign contact agents, and provide exporters with any incentives that may be available.
- Export-Import Bank. A federal agency, the Export-Import Bank (often referred to as Eximbank), is a source of financial assistance to exporters. The assistance can be significant, as Eximbank may

guarantee up to 85% of loans to exporters up to $1 million. In addition, the Eximbank offers insurance for foreign ventures through the Foreign Credit Insurance Association.

- The Small Business Association. Through its Export Information Service, the Small Business Association offers reports on nearly 3,000 exported products. The largest 25 markets for each product are also included. Such information can help you to determine how much competition you are likely to encounter as you enter new markets.
- The Commercial Information Management System. A service of the U.S. Department of Commerce, the Commercial Information Management System is an extensive database that provides market research information in the form of thousands of reports generated by the offices of the Department of Commerce.
- The Center for International Research. This is another database operated by the Department of Commerce, but in this case through its Census Bureau. The database contains information regarding the population, economy, and social conditions of every nation in the world. The information obtainable here can be valuable for market research.
- National Technical Information Service. Operated by the Department of Commerce, this service acts as clearinghouse for international sales leads. Foreign sales leads are gathered and kept on file in the offices of the Department of Commerce. The leads are available to entrepreneurs.

- The Foreign Buyer Program. This program is also managed by the Department of Commerce. The department holds various trade shows at which U.S. companies can display their products and services for foreign buyers. The department makes provisions for brochures in different languages, interpreters, and advisors at the shows.
- Banks with international trade departments. Entrepreneurs who plan to establish overseas ventures are wise to enlist the services of one of the major banks (there are close to 300 of these banks in the U.S.) that maintains a large and experienced international trade department. Few local banks provide such service. Banks that offer international services are essential. Not only will they be more likely to understand your venture, they will also be able to offer help in putting you in contact with useful government agencies, assist you in navigating international trade regulations, and handle currency issues.
- The International Council for Small Business. The ICSB, which has offices throughout the world, is a non-profit organization devoted to providing management education for small business owners and entrepreneurs. The organization has various resources and programs, including publications and newsletters, that can be useful for companies.

With the rapid advances of technology during the latter half of the 20th century, the world has undeniably become smaller. Businesses that just a decade ago would have encountered near insurmountable obstacles if they tried to market their products overseas now can choose from among several strategies as they attempt to penetrate foreign markets.

Although selling products and services on a global scale brings with it additional risks, it also can lead to greater profits.

The world market is immense and growing. The consumers of emerging nations demand for products and services that can enhance their lives by making life easier, more enjoyable, or safer. Entrepreneurs who are able to satisfy the needs of customers, no matter where those customers might be, are more likely to realize success than businesses whose vision is limited and who confine their operations within their nation's borders.

Chapter 9

The Boundless Potential of E-Commerce

As late as just a few years ago, many large, domestic and multinational corporations remained cautiously on the sidelines as thousands of smaller upstarts rushed to establish an on-line presence. This no longer true. Even the biggest and most conservative companies are now pressing ahead with plans to create on-line stores. While many are building their e-commerce trade in-house, creating their cyber business step by step, others are buying their smaller rivals, acquiring instant access to the Internet and customers worldwide.

Without question, using the Internet for sales isn't a trend anymore, but a requirement for economic survival. Although millions of commercial sites already dot the Worldwide Web, with more being added every day, there is plenty of room for new companies. There also is substantial funding available for companies. In 1999, venture capitalists alone provided some $20 billion for about 1,800 Internet companies. Close to 300 IPOs resulted in $22 billion more for Web firms. Countless more were started with private funds.

While many Internet companies maintain both a presence on the Web and brick and mortar facilities, many others conduct all of their business on-line. The giant on-line bookstore Amazon.com is perhaps one of the best known Internet companies and one of the first to gain household recognition, but it is now only one of thousands of virtual mega-stores.

Joining the e-commerce community provides companies with many potential advantages, most notably the possibility of expanding into fresh markets. Companies benefit from the world-wide scope of the Internet, realizing an increase in the number of their customers, a decrease in costs, particularly overhead, and a rise in productivity, a result of mainly a greater reliance on the technology vital to e-commerce.

E-commerce is not concentrated solely between companies and consumers, but includes a rapidly growing business-to-business sector. It is estimated that by 2004, business-to-business e-commerce will expand to at least $2.7 trillion annually. The entire sector is exploding with opportunity and offers entrepreneurs enormous latitude in starting new ventures.

While many companies are already on-line – with more establishing themselves every day – many small and mid-sized companies have yet to set-up an on-line presence and procedures for business. According to the National Association of Manufacturers, for example, close to 70% of U.S. manufacturers have not begun utilizing the Internet for business. This mirrors the near 70% of U.S. retailers that either have a limited Internet presence or none at all. Such delay provides entrepreneurs with the chance to start a dot-com business with minimal competition. Of course, the longer an entrepreneur hesitates, the more competition he or she will encounter. The time to advance into e-commerce is now.

Establishing a Dot-com Company the Old-fashioned Way

The entrepreneur who believes that setting up an Internet site to do business is simpler than establishing a traditional store-front business has already taken the first step to failure. Never permit yourself to think that hiring a few computer-savvy business school graduates with grand ideas for the electronic future will be enough to ensure the profitability of your venture. Just like a traditional company, a solid understanding of business practices, thorough research, marketable products or services, experienced, quality management, and access to financial resources are essential if you are to be successful. Constructing a basic website that will result in sales of your products or services is a difficult undertaking that requires meticulous planning. In establishing the typical business website you will need to consider the following (and, depending upon the business you hope to establish, likely more):

- You will need the technology necessary to maintain your website. This includes high-quality software designed for your type of business, terminals and servers, connections (often called pipes) over which data flows, networks to handle internal data, and database integration. If you intend to sell numerous products or services, your website may require hundreds or even thousands of pages with links that will enable customers to easily navigate through your on-line catalog.

- You will need qualified personnel to design, manage, and maintain your site. Imagine a catalog of a typical mailorder house. Now consider the task of putting all of the pages on-line and making them quickly available to consumers who may possess only basic computer skills, and you begin to understand the size of the task. Updating hundreds or thousands of web pagers with new product and ordering information can overwhelm inexperienced management and their technical staff. Many companies turn to outside companies known as content managers and content management software that can help with the responsibility.

- You must make certain that orders are filled efficiently. One of the great pitfalls to e-commerce, particularly a few years ago, was the ease with which customers were able to place orders. Unfortunately, fulfilling those orders and shipping them was not so simple and products often took several weeks for delivery, resulting in dissatisfied customers, many of whom were reluctant to order from that company again. Orders and shipping must be managed effectively.
- Depending upon the products or services you offer, you may need to maintain considerable on-line sales support. Customers may require help in placing orders, especially if they can custom order products. While specialized software called configuration software can assist customers in ordering the products they wish, with the sizes and parts they desire, you will likely need to maintain sales support as well.
- Depending upon your products or services, you may also need to maintain customer service representatives who can handle problems that may arise after customers have made purchases.

On-line companies are selling just about everything over the Internet these days from heavy equipment such as automobiles to exotic specialty items, however, all of the successful ventures share the fundamentals of good businesses practices and the selling of marketable products and services. Without products or services that customers desire, the fanciest, most advanced website will be a failure.

Utilizing the Internet for All Operations

The entrepreneur or business manager who views the Internet as simply another avenue through which to sell products and services has a limited grasp of the scope and power of the World Wide Web. The Internet can be used to improve efficiency and streamline all aspects of a business. Numerous specialized e-markets exist that can help a company prosper.

More and more companies are realizing that the Internet can serve as a system to purchase supplies and materials as well as work with other companies to coordinate services. Many companies today are linked directly with their suppliers through the Internet, resulting in improved efficiency as information pertaining to orders from customers is quickly shared with the computer systems of the company's suppliers, enabling supplies and materials to flow more smoothly. Because inventories are kept low, the amount of money needed to maintain inventories is reduced, freeing money for other purposes. The efficient flow of products and supplies also enhances billing and accounting, improving cashflow.

Hundreds of business-to-business (B2B) websites connect buyers to sellers, electronically managing the integration of supply, purchasing, and billing for the various companies linked. Such arrangements make it possible for small firms to work with large companies, because the systems are fully automated. No longer is the small company shut out from buying materials from major suppliers because of its size. Handled by computers, orders are processed with the utmost efficiency. Market analysts expect that every market sector – no matter how specialized or small – will soon be serviced by B2B websites.

The typical B2B website functions much like a huge market found in the center of an ancient city where buyers and sellers from miles around came to exchange goods. Today, of course, the market is electronic and the buyers and sellers can reside anywhere in the world provided they have Internet access. B2B sites operate as great exchanges where buyers can be matched quickly with hundreds of sellers according to their needs of materials, specifications, price, geographical considerations, and shipping requirements. There is no more haggling over price, no more face to face negotiations or long phone conversations for offers and counteroffers; computers post the prices and make the transactions, freeing the business manager to focus his attention on other matters that affect the growth and success of his company.

The impact of the Internet on the world's economy promises to be as great as the Industrial Revolution of the 19th century. Not only are new businesses being created every day, but new methods of doing business are developing. From information to advice to heavy machinery – if it can be sold, it can be sold over the Internet. The possibilities for entrepreneurs are staggering.

Good Business Still Equals Success

It has been said that e-commerce is simply a new "face" of business, that successful e-commerce companies follow the same principles successful businesses have been using since the emergence of the world's modern economy. In large part this is true. An e-commerce company, just like a traditional brick and mortar company, must have marketable products or services that are in demand by buyers, and its management and staff must ensure that the needs of the company's customers are met.

Throughout the company's numerous operations and challenges, appropriate decisions must be made to ensure the company's growth.

However, the fact that e-commerce is expanding faster than any other business sector cannot be dismissed. While some marketing experts predict that e-commerce will be the dominant form of business in the future, almost all predict that the expansion of e-commerce will continue. Clearly, the Internet and e-commerce present entrepreneurs with opportunities of vast potential.

While promising opportunity, such extraordinary growth also brings with it dangers. Some entrepreneurs look upon the rapid expansion of e-commerce as a "can't miss" business opportunity, a sure thing. This is a mistake. Sound business practices are essential, and for all companies this includes offering valuable products and services at fair prices, backed by reliable delivery and service. In the early days of e-commerce, for example, many companies provided free information and obtained their revenue from selling advertising. Some still do, and while this strategy may work in the short term, long-term growth requires much more. Unquestionably, products and services that satisfy the needs of customers offer the most direct path to profitability.

Following are some crucial guideposts for the entrepreneur who considers establishing an Internet company:

- You must have an idea that can be turned into a marketable product or service.
- You must research your target market thoroughly and test your product or service to determine its potential demand.

- You must carefully evaluate your competition. Does your company have significant on-line competitors? Does it have traditional competitors who can easily reach your potential customers? Just because you can sell a product or service on-line does not necessarily mean you will be successful doing so, especially if consumers can buy the product or service locally. You must answer this question: What value can I offer my customers that my competitors can't? If you can't provide a satisfactory answer, you must re-evaluate your business plan.
- You must determine if you have the computer expertise that will be required to establish an on-line company. If you lack this expertise, you must be willing to hire individuals who do.
- You must enlist the services of the various personnel with business experience who will help you to build a successful operation.
- You must set up procedures that ensure your products or services will be delivered efficiently.
- You must be willing to spend long hours working to build your business. Just because you may be starting it in a spare room of your home does not mean you will be working less. As is the case with the establishment of any business, the commitment is a heavy one.
- You must be willing to seek financial resources as necessary to ensure that your company grows. You may not have the overhead costs of maintaining large facilities, but you will incur high costs for technology and the staff to manage complex computer systems.

- You must be always cognizant of the fact that the Internet is still a young, developing medium for conducting business. Not all the rules are yet written and for all the potential opportunity there is also potential for disaster. All business decisions must be fully analyzed for their effect and possible implications.
- As with any business, you must realize that there will be days of heady success and days of dismal failure. The important thing is to keep moving forward.

Successful Web companies, despite their reliance on technology, are built the traditional way, focusing on products and service. It has been estimated that for every profitable Internet company, there are at least a hundred that have either failed or are failing. Still, spectacular successes abound.

The opportunity for establishing a successful Internet company clearly exists. However, effective business practices are needed to ensure that the company achieves profitability. The Internet, above all, offers a challenge to entrepreneurs with the potential for unimaginable success.

Chapter 10

Investing the Profits of Your Venture

Successful entrepreneurs know that investing the earnings from their ventures is just as important as building the venture into a profitable business. Failure to invest income is one of the surest ways to squander the benefits that follow the creation of prosperous company. Indeed, astute choices in investment can lead to the realization of personal financial goals and, potentially, financial freedom. A problem often arises when one considers where to invest his money because there are so many options. Selecting the wrong ones can, at best, hinder the achievement of financial goals, and, at the worst, result in financial ruin. This is especially true for entrepreneurs who often have much of their personal assets tied up in their ventures.

There are many types of investments from which to choose. The most common include:

- Common stocks
- Corporate bonds
- Government bonds
- Annuities
- Equities
- Mutual funds
- Insurance policies
- Options

The question therefore focuses on not only which types of investments are right for an individual, but also which is the right place and company through which to invest. The answers can greatly affect an investor's overall returns.

Except for being useful for carrying out basic financial activities such as paying bills, traditional banks are probably one of the poorest investment alternatives. Interest rates are typically among the lowest, and any specialized account, such as a certificate of deposit that offers a slightly higher yield, usually comes with a specific time commitment – several months or years – and also has penalties for early withdrawal. Thus, your money is committed for a certain length of time, hindering your liquidity, and you are earning interest at a rate much lower than most investments. Moreover, the interest rate one receives from a bank on his deposits is not the true return.

Consider this example. Suppose you commit several thousand dollars to a one-year certificate of deposit with your local bank. The interest rate is 6.5%. Taking into account that the investment is insured and guaranteed through the FDIC, the investor may feel that this is a good investment. However, the 6.5% is not the "real" return. The real return must include the rate of inflation, perhaps 3%, which quickly and significantly erodes that 6.5% rate, and also the payment of taxes on the earnings, which, depending upon the investor's tax bracket, could be quite high, furthering reducing the returns.

For many entrepreneurs, placing money in a bank will generate no real return at all. They will, in fact, likely be losing purchasing power. This investment is no investment. The rate of inflation and tax obligations must always be calculated against the supposed returns of any investment, for they can easily reduce an expected yield by several percentage points.

Aware of the deleterious effects of inflation and taxes, some investors gamble on high-yield securities, hoping to realize a return great enough to offset reducing factors. Unfortunately, such securities always come with increased risk. Committing large amounts of money to the wrong stock, bond, or mutual fund can lead to major losses. More than one new profitable venture has been severely undermined by the poor investments of its owner.

Farsighted entrepreneurs consider a broad range of investments, domestically and globally. While they are diligent in their efforts to avoid unnecessary risk and fraud, they are also open to options frequently ignored or overlooked by many. They reject "get-rich-quick" schemes that promise eye-popping returns and which generally enrich only the promoters of the plans, and instead seek investments that offer the greatest returns for the least possible risk. While they may invest in some short-term securities, most of their choices are for the long-term for this is where the greatest value lies.

Up until the past two decades, the United States offered by far the strongest and safest investment environment. This is no longer so. Many countries throughout the world have become secure politically, socially, and financially, and offer a wide assortment of investment possibilities. The individual who takes a global view of investing vastly broadens his investment opportunities. Indeed, many international funds and plans offer high returns, minimal risk, and reduced tax consequences. In some, tax obligations may be reduced to single digits or even zero. It is not uncommon for international investors to maintain up to half of their investments in overseas securities.

To reduce risk, most experienced investors avoid the temptation to commit large sums to high-yield but risky securities and instead diversify their portfolios. Many entrepreneurs, of course, place much of their earnings back into their venture, expanding it or creating subsidiary companies, but they still invest in other areas as well. Committing money to various investments reduces the chances of a major loss should one or more of the investments not perform as expected.

Whenever investing, you must be concerned with long-term prospects and ignore short-term fluctuations. Trying to time markets for investing is at best a dubious strategy and one that is more likely to result in losses rather than gains. Entrepreneurs who are able to take the profits from their ventures and invest them successfully make rapid strides to amassing wealth.

Just as he must have a sound plan if he is to build a successful business, an entrepreneur must have clear financial goals for the profits he earns. Although the goals of investors vary, depending upon many factors, including background, attitudes, and risk comfort level, there are several fundamentals that they need to understand if they are to realize their financial objectives. These fundamentals include:

- Financial goals must be clear and reasonable.
- A full evaluation of his or her current financial condition, including the state of his or her company or venture, must be made.

- Competent investment advice must be obtained. While an investor should educate himself in regard to investments, most benefit from the counsel of an experienced investment adviser.

- A variety of investment options should be considered, both domestically and internationally. Diversification is crucial to any sound investment plan. Without question, the investor who limits himself to just a few investment options is severely limiting his chances for attaining his goals.

- An honest assessment of risk must be undertaken. Each investor has his own risk level and should select investment options that fall within the boundaries of that level.

- An assessment of the impact of taxes needs to be made in regard to any investment plan. Taxes can significantly reduce earnings, and every step to minimize taxes should be taken. Tax havens can be most useful in this area.

- While an occasional short-term investment is certainly an option, the best option is to plan and invest over the long-term.

Building a successful business from an entrepreneurial venture can lead to an excellent cashflow and major earnings. Investing those earnings wisely even as the company continues to grow will result in a swift building of personal wealth.

Investing in International Markets

Once the United States was the world's biggest and safest securities market. While it may still lay claim to being the largest, many other nations offer safe investment environments in which opportunity abounds. Investing globally enables individuals to easily diversify their holdings. Since the world's various markets seldom rise and fall at the time, risk is limited and potential for earnings broadened.

As with any investment alternative, international markets vary in safety, potential returns, and confidentiality, and before committing any funds you should thoroughly research the country, investment, and securities company with which you will be dealing. Consider the following:

- The country should be stable politically, socially, and economically. (Note that democracies frequently offer some of the best climates for investment.)
- The country's overall economy should be strong with realistic expectations for continued growth.
- Ideally, you should be able to converse with investment agents and officials in English (or your native language).
- The nation's investment laws should encourage foreign investment through generous incentives, particularly low or zero tax rates on investments.
- Government regulation of business should be minimal. A free-market economy, based on capitalism, should prevail.
- The nation should have a low rate of inflation, as this generally benefits investment.
- Exchange rates should be favorable to foreign investment. (If the country's currency is weak in comparison to the U.S. dollar, the true value of an investment will decrease despite the appearance that it is growing.)

- The country's currency should be strong and stable.
- Currency laws should also favor foreign investment.
- The nation should have a growing middle class, for this usually fuels economic growth.

In addition, you should:

- Learn as much as you can about the specific investments you are considering.
- Seek the counsel of experienced investment advisors, who are knowledgeable in the market and country in which you wish to invest.
- Find out the liquidity of the investment you are considering. You should be able to sell quickly if necessary.
- Carefully assess the country's privacy laws in regard to investments. While the privacy laws of some states are strong, others offer little guarantee of confidentiality.

The global investment market is growing and offers many opportunities for investors. Not only should entrepreneurs consider international markets for their ventures, but they should seek investment options on a worldwide scale. While fine investment opportunities may be found in many nations, those investors seeking solid returns, security, and privacy are well advised to turn to Switzerland.

Switzerland – The World's Center for Global Investments

Switzerland is well known as an international financial center. Swiss banks and investment houses provide investors with financial expertise, security, and privacy. They also offer numerous quality services to both large and small investors. Because of its reputation as a world financial leader, many people assume that Swiss financial institutions are unwilling to work with investors of modest accounts, but this is not true. Many Swiss investment houses provide full services to individuals around the world no matter the amount of the investment.

When one considers the many strengths of the Swiss financial system, it quickly becomes clear that Switzerland is a prime investment site. Consider the following facts:

- The Swiss franc is backed 100% by gold, making Switzerland's currency one of the few countries remaining in the world whose money is more than mere paper.
- Over the last several years, the inflation rate in Switzerland has been lower than the rates of most countries, including that of the United States.
- Investors in Switzerland are not burdened by exchange controls.
- Switzerland's privacy laws are among the best in the world. Investors enjoy near iron-clad confidentiality.
- Switzerland guarantees its people a vote in the policies of the country through a national referendum. The right to referendum prevents political leaders from passing legislation that could weaken the country's position as a global financial center. The referendum results in great financial stability for the nation.

While investors can choose from among many Swiss investment houses, Swiss banks provide the bedrock of the country's financial system.

The system is tightly regulated and many financial authorities believe Swiss banks to be the most solid in the world. Swiss banks are supervised by the nation's Banking Commission and regularly undergo detailed audits. Such rigorous control ensures the safety of Swiss banks.

Safety is a result not only of supervision, however, as Swiss banks also conduct their business according to exacting capital requirements. By law, between 7% and 9% of total liabilities must be equity, numbers which surpass the requirements of banks in other nations. The strength of Swiss banks is also enhanced by requirements of the banking law that direct Swiss banks to operate at a level of liquidity that is near 100%. This is a crucial requirement. The major reason for the bank collapse during the Great Depression was that banks did not maintain enough liquidity. Thus, when customers demanded their money during the first days of the economic collapse, the banks did not have enough assets available to pay them. With banks failing across the country, the economic crash accelerated and the Great Depression was all but assured. In addition, Swiss banks that own securities are not permitted to carry unrealized paper losses, which banks of many other nations typically do. Unrealized paper losses give the impression that a bank is stronger and safer than it truly is, because losses are minimized on the books.

The reputation of Swiss banks and investment houses is clearly indicated by a single statistic: Swiss investment managers oversee close to half of the world's private portfolio assets worth roughly two trillion dollars.

Investing in Swiss Annuities

Of all the investment options available through Swiss banks and financial firms, annuities are one of the most desirable choices. Despite the fact that the U.S. government does not permit the advertising of Swiss annuities in the United States, it is legal for American investors to purchase the annuities. Most commonly referred to simply as annuities, Swiss annuities combine the benefits and advantages of Swiss bank accounts and Swiss deferred annuities, creating a unique investment option.

Perhaps most importantly, Swiss annuities provide investors with significant tax benefits. While the investment functions much like a Swiss savings account, it falls within the regulations that govern a Swiss insurance company. Because it is considered to be an annuity, the investment earns compound, tax-free returns. Moreover, because a Swiss annuity is not a foreign bank account, it is not subject to being reported on IRS Form 1040 or the special U.S. Treasury form for the reporting of foreign income. In addition, the annuities are not reported to Swiss tax authorities or any other tax agency.

Enjoying these tax advantages, the annuities pay solid, steady returns, at a rate roughly equivalent to the long-term government bonds in the currency in which the account is held. Add to this the overall strength of the Swiss financial system, and the fact that the interest and dividends of annuities are guaranteed by a Swiss insurance company, and it is clear that Swiss annuities offer significant advantages over many other types of investments. It is noteworthy that the Swiss insurance industry has not had a failure in 130 years and is considered to be the strongest in the world.

Swiss annuities are easy to purchase and require little in set-up and maintenance costs. You can simply mail in or wire your deposit. Swiss annuities are sold on a "no-load" basis, both front- and back-end. Only a small management fee of about a half percent is required. The annuities also offer quick liquidity. After the first year, all capital, accumulated interest, and dividends can be accessed. During the first year, the entire principal can be accessed, but a Sfr500 fee must be paid and any interest that has been paid is forfeit.

Of great concern to many investors is security. Swiss annuities provide both privacy and protection from creditors. Under Swiss law, when the purchaser of an annuity names a spouse, children, or third party as irrevocable beneficiaries, creditors are not permitted to attach liens to the assets held in the annuity. Asset-protection is a major benefit, which is quite attractive to entrepreneurs who may wish to shield personal assets in the event their venture fails.

Swiss annuities offer various options upon maturity. The investor may opt for a lump sum payout, roll the funds of the annuity into an income annuity, or extend the scheduled term of the annuity.

Swiss Financial Experts

Swiss investment managers are experienced in working with investors from around the world. Most are fluent in English and have substantial experience in managing various types of investments. They are comfortable managing an investor's entire portfolio if he wishes; however, for investors who prefer to make their own financial decisions, Swiss advisers are happy to offer their expertise to the degree it is required. They can help you manage your investments, or manage them for you – whichever arrangement makes you feel more comfortable. For the entrepreneur who devotes much of his energy to building his venture, the efficiency and competence of Swiss investment managers can be a major attraction.

A fine example of a Swiss money management company is JML Swiss Investment Counselors. Founded by Jurg M. Lattman, who has been providing expert financial advice to investment professionals, bankers, economists, and private investors around the world since 1973, JML experts monitor global economic indicators and trends and provide their clients with some of the best financial advice available anywhere. They make it a simple matter to invest in Swiss annuities as well as take advantage of other global investment options.

Investors who wish to learn more about JML Swiss Investment Management may contact the firm at:

JML Jurg M. Lattman AG
Swiss Investment Counselors
Germaniastrasse 55, Dept. 212
CH-8033 Zurich,
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There are many excellent choices among Swiss investment advisors and financial managers. A superior independent Swiss portfolio management firm is **Weber Hartmann Vrijhof & Partners**. This firm offers management services for individual portfolios as well as portfolios for corporations and offshore trusts.

Using an independent portfolio manager rather than a bank offers better service, and better control over the account. It also eliminates the conflict of interest that naturally arises between the banks commissionable role as stockbroker and its role as investment manager (a conflict that has long plagued U.S. securities firms as well).

The asset management and international financial consulting company was opened by Hans Weber and his partners in Zurich in 1992. Many readers will remember Hans from his Deak-Perera days, when he ran Foreign Commerce Bank (FOCOBANK) in Switzerland for almost 30 years as the bank's President and CEO. He decided to leave the bank and establish his own firm after too many shareholder changes and mergers.

He was joined by Robert Vrijhof, formerly Vice-President and head of FOCOBANK's portfolio management group and Adrian Hartmann, formerly head of FOCOBANK's North American subsidiary in Vancouver. The partners have a very sound and efficient asset management operation providing a very personalized service to their clientele.

Hans is a very conservative Swiss banker who applies strict and conservative asset management principles. His partners, Robert and Adrian, have the same investment philosophy. They provide a very personal, comprehensive financial service to a select group of private investors. Everything they do is customized to suit the particular needs of their clientele. Their highest priority is the protection of long-term purchasing power.

There are many advantages to using independent asset managers such as Hans and his partners rather than just relying on a Swiss bank. For example:

Independent asset managers derive their income from an agreed to percentage of the value of the client's funds under management. Therefore, the more profit the client makes, the more the asset manager makes. This is very different from dealing directly with a bank which makes its money from brokerage and administrative fees.

For North American clients, they understand the needs of a clientele who use the dollar as their reference currency. Since Hans founded the firm, the partners have advised North American clients to have a certain amount of their wealth out of the dollar. The funds have been invested in "hard currencies" such as the Swiss franc, German mark, French franc, and the Dutch guilder.

The minimum amount to set-up an account with this firm is US$250,000 or equivalent. When you are ready to proceed, you can contact:

Weber, Hartmann, Vrijhof & Partners Ltd.
Attn: New Clients Department
Zurichstrasses 110B
CH-8134 Adilswil
Switzerland
Phone: (41-1)-709-11-15
Fax: (41-1)-709-11-13, Attn: New Clients Department

Even though many investors recognize that Switzerland is a center of finance and investment, they do not realize the vast scope of the investment options offered by Swiss financial institutions and companies. Switzerland is a prime spot for investment for numerous reasons, most importantly for the strength of its currency, security of its financial system, and steady returns on investment.

The Investment Power of Trusts

A trust is a fiduciary relationship involving a trustee who holds property of the trust for the benefit or use of a beneficiary. The property contained in a trust may be real, personal, tangible, or intangible, and the trust may serve a variety of purposes. Most trusts are established for the purpose of at least one of the following:

- Managing a business.
- Holding title of properties and securities.
- Investing in stocks and bonds.
- Investing in real estate.
- Maintaining confidentiality of assets.
- Providing financial support for individuals named in the trust.
- Providing for the needs and care of the young or elderly.
- Protecting assets against creditors.
- Serving in prenuptial agreements.
- Facilitating the procedures of inheritance, particularly in an effort to reduce taxes.

These are just some of the many ways trusts can be used to safeguard assets. Trusts can be set up to serve numerous purposes, the only restriction being that the home country's laws are observed. Entrepreneurs are advised to consider trusts primarily as a means of asset protection. While a trust is a "legal container of assets," which are managed by the trustee for the benefit of designated individuals, a trust can carry on business much like a company. It can not only hold assets, but make investments, buy and sell stocks, and disburse money. Unlike a company, because a trust legally has no owners who are subject to tax, the assets of a trust are shielded from taxation.

Many countries have laws governing trusts. Although trusts are much the same everywhere, they do vary and investors should seek the trust that best fits their financial needs. It is estimated that close to a trillion dollars of U.S. funds are held in offshore trusts.

Trusts are generally easy to establish, however, because of the many purposes they can serve and the significant financial benefits they can bestow, particularly the relief of the tax burdens of ownership, trusts should be set up only with the guidance of a financial consultant who has extensive experience in trust formation. An experienced trust advisor can help an investor select the kind of trust that will best satisfy his or her financial needs and goals.

Virtually all trusts are organized in a similar fashion. The *grantor* (the person who establishes the trust) confers a legal title to property, which may be real or personal, including money, to a *trustee*. The trustee may be an attorney, financial manager, bank or investment house that has a trust department, or even a friend. The trustee assumes the responsibility of managing the assets of the trust for the *beneficiary* (the person or persons who benefit from the assets of the trust) for the period of time in which the trust exists. Some trusts are formed to last a few years, until the beneficiary attains a specific age; others may be designed to continue for several years. Once the trust is established, the legal title and ownership of the assets of the trust pass from the grantor to the trust. After establishment of a trust, the beneficiary will receive benefits according to the trust declaration, which is the set of rules the grantor chooses to direct management of the trust.

Some of the most advantageous trust laws are found in offshore financial centers. With over 60 such centers, investors have numerous choices. When considering an offshore financial center for the establishment of a trust, investors should seek those that meet their needs and fulfill their financial objectives.

Of the many possible offshore trust centers, St. Kitts-Nevis, a two-island nation in the West Indies, is clearly one of the best. The two islands are united under a unicameral parliament, located in Basseterre on St. Kitts, however, each island also remains somewhat distinct. Thus, in 1994, the Nevis Island Assembly passed the Nevis International Trust Ordinance, which has turned out to be one of the broadest, most comprehensive asset protection trusts (APT) in the world. One of the primary purposes of the Nevis International Trust Ordinance is to allow foreign citizens to transfer the titles of their assets to an APT in Nevis.

The Nevis trust law provides excellent asset protection. Highlights of the law follow:

- Authorities in Nevis are not permitted to comply with any non-domestic court orders aimed at a domestic APT.

- Foreign creditors must take any suits to a court in Nevis.
- A U.S. $25,000 bond must be posted with the government of Nevis to cover the costs of court and associated expenses before any suit is filed against an APT.
- The statute of limitations for filing legal challenges to an APT established in Nevis ends one year after the trust's formation date.
- The burden of proof is placed on the plaintiff in regard to an APT.
- Trusts established in Nevis enjoy exceptional privacy. For example, trust documents need not be filed with the Nevis government, and the documents regarding trusts do not become a part of the public record.

Trusts are unique financial tools. They can be used by individuals and corporations for numerous purposes, including asset protection and privacy.

There are many investment options for entrepreneurs to consider to preserve and increase the profits they receive from their ventures. Entrepreneurs are wise to seek investments in the global marketplace that yield steady returns with an acceptable level of risk. The entrepreneur who only focuses his attention and energy on the building of his venture, neglecting the potential income offered by sound investments, will miss a valuable opportunity for building wealth.

Skye Fiduciary Services Limited

Another highly recommended firm in the creation of offshore companies (and trusts) is Skye Fiduciary Services Limited.

Located on the Isle of Man, one of the better tax havens of the world, Skye Fiduciary Services Limited is comprised of financial consultants who specialize in the creation of offshore and international fiduciary structures. Charles Cain, the chairman of the company, has excellent experience in international finance. A former managing director of the second merchant bank to open its doors on the Isle of Man before he established his own financial services company, Cain and his associates at Skye Fiduciary Services Limited without question offer superior expertise in offshore trust and corporate management.

Skye Fiduciary Services Limited provides an impressive range of services to their clients, including:

- The design of companies that utilize entities and options from different jurisdictions, providing the client with a financial vehicle that will most satisfy his specific financial needs.
- The design of companies whose primary operation is trading.
- The design of offshore family and charitable foundations.
- The design of asset protection structures.
- The creation of structures that assure privacy.

It is important to note that the firm also possesses understanding of and expertise in the U.S. tax code, which enables it to ensure U.S. investors that the offshore structures Skye Fiduciary Services Limited creates for them will limit their tax requirements, yet remain entirely within the law. The company is also knowledgeable in ways to create financial structures for those individuals who wish to immigrate to the U.S. and limit their tax liabilities.

For further information, write the following:

Skye Fiduciary Services Limited

Attn: New Clients Department

2 Water Street

Ramsey, Isle of Man 1M8 1JP

United Kingdom

Telephone number +44 1624 816117.

Fax +44 1624 816645; direct communications to New Clients Information.

Without question, a host of investment opportunities are available in offshore tax havens. If you would like to learn more about tax havens and establishing a corporation in a country that is known as a tax haven, read the following:

The Complete Guide to Tax Havens by Adam Starchild. Available through most book stores and libraries.

Chapter 11

Go Do It

Consider what your world might be like should you be given the power to do exactly what you wanted to do with your life.

We ask you to dream. Expand your personal horizons to include all the world — not the limited world you may have known most, or all, of your life — but the world beyond and all its infinite possibilities.

One of history's greatest despots, the Corsican, Napoleon Bonaparte, is reported to have said: "Imagination rules the world." And perhaps, in his imagination (but, thank God, only there) he fulfilled that self-anointed destiny.

We are far more indebted to G. K. Chesterton for his practical wisdom: "The centre of every man's existence is a dream." If Chesterton's observation was not entirely accurate, we can only wish it could be, at least as it applies to our lives.

We hope we have offered for your serious consideration the kinds of information which will spur you on to fulfill your dream — whatever it may be — and wherever it may lead you — as a citizen of the world.

About the Author

Over the past 25 years, Adam Starchild has been the author of over two dozen books, and hundreds of magazine articles, primarily on business and finance. His articles have appeared in a wide range of publications around the world — including Business Credit, Euromoney, Finance, The Financial Planner, International Living, Offshore Financial Review, Reason, Tax Planning International, The Bull & Bear, Trust & Estates, and many more.

Now semi-retired, he was the president of an international consulting group specializing in banking, finance and the development of new businesses, and director of a trust company.

Although this formidable testimony to expertise in his field, plus his current preoccupation with other books-in-progress, would not seem to leave time for a well-rounded existence, Starchild has won two Presidential Sports Awards and written several cookbooks, and is currently involved in a number of personal charitable projects. His personal website is at: http://www.cyberhaven.com/starchild/

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Capitalism has built the modern world. Al
dispute that claim, it is clear, at least for those w
or political intent, that economies based on capi
a faster rate than other economic systems. Th
throughout history.

At its simplest and purest, capitalism is an economic system in which private individuals and companies produce and exchange goods and services through free markets. Many political leaders hope to influence their people via the economy, they may attempt to protect domestic business from foreign competition, or they may try to increase revenue with tariffs or export duties. That these types of objectives usually only hinder economic activity over the long term is frequently ignored, lost in the rhetoric about social considerations and goals.

Of the many factors that can affect how the capitalist spirit develops in a country, one which is often overlooked is that of entrepreneurship. In lands where capitalism is unfettered by unnecessary regulation and where entrepreneurship is dynamic, impressive economic gains and advancements can be expected. Entrepreneurship is perhaps one of the greatest driving forces of capitalism. Indeed, the two are inseparable.

Most people can only dream about becoming wealthy. They have all the wrong ideas. Only a certain portion of the world's population ever achieves wealth. Even in the United States, only a few get wealthy. There is a reason why only a few people produce most of the wealth in the world. It's because the majority of people have no interest in taking charge of their future. They keep waiting around for someone else to do it for them. Only those who are accustomed to taking charge of the world around them, and creating opportunities for themselves, will see the advantages of entrepreneurship.

Prosperity for the individual is the only real way to benefit society. Your personal success will do more to improve the world than hundreds of bureaucrats and their useless regulations.

Consider what your world might be like should you be given the power to do exactly what you wanted to do with your life.

We ask you to dream. Expand your personal horizons to include all the world not the limited world you may have known most, or all, of your life but the world beyond and all its infinite possibilities.

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