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Thank you

for ordering our manual!

It is a 3-ring binder format for several very important reasons.

- Rather than providing the manual on-line, we've found that people get more value from the information when they can keep it on the shelf, take it with them to the easy chair to read, write notes in the margins, etc.
- This is meant to be the beginning of your business library. You undoubtedly will discover new articles and new tidbits of information - with our binder format, it's easy to insert that information.
- Your Manual is printed at the time you order it. Since we are information junkies, we are constantly discovering new useful information and new resources. We add them to our Manual as we find these, and so your Manual is up-to-date and fresh. Contrast that with a book printed two years ago!
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01-Overview

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Any corrections or additions? Please let us know!

1. Introduction

This manual is designed to give you an overview of one of the oldest and yet often one of the most profitable businesses in the world, the Crafts Business.

We aren't going to go into detail about how to make any particular craft item - the endless variety of crafts would make this impossible. Even if there were only one type of craft though, it would still not be a good idea to write a how-to-create-the-item type book, since each crafter will, and should, develop their own style. Your product should not look like any other.

What we do cover is how to make money at the craft business. How to start one, how to market your craft, and how to profit with it. We'll give you pointers to websites to check out, publications to read, and software to get. But mostly, this is a "how to succeed at this business" book.

It is in 3-ring binder format for a very important reason. This should be a dynamic book, ever changing and being added to. You can add interesting articles you run across, as well as any pages you do yourself. There is a whole blank back side of each page for taking notes and sketching out ideas. We also leave enough room for margin notes on the pages themselves.

Feel free to contact me if you find any errors, corrections or additions. In fact, I'd love to get your feedback on the manual as a whole. What do you think of it? How can it be improved? Of course, if you have any ideas on increasing sales of the manual, that is always welcome :-)

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Steve Veltkamp
President, Biz\$hop Publishing
Author, publisher, consultant

2. Gain Control Of Your Own Life

Hold on to your seats, because the next phase of your life is going to be wild. It will be the best, most exciting time you've ever known. The fact that you are reading this manual shows that you've made that first step, a step towards life without a 'job'.

Maybe you have planned to be your own boss for some time. Maybe you haven't even made this decision yet. Whichever, by the time you finish this manual, I know you will feel confident in starting a life of freedom, the life with no boss but yourself.

Everyone has only four choices

1. Live off the government, retirement check, student grants, spouse or savings and not work at all.
2. Stay in your current job, and with what you've got right now.
3. Get a new job.
4. Choose life without a job, by starting a business.

Let's face it, few of us have the money (or rich spouse) to pursue option one for long. Even if we did, we would soon find such a life devoid of purpose and rather boring. We would probably dread the question "what do you do for a living?" because there is little social acceptance for non-workers, for bums or others who are just drifting through life.

Doing nothing may even kill us. Studies have shown that those who choose to just "take it easy" after retirement have a much shorter lifespan than those who continue to challenge themselves.

Choice two is the easiest choice, because it requires no changes. Remember this saying though:

If You Always Do What You've Always Done,
You'll Never Have More Than What You've Already Got

Rather than focusing on the material aspect, I'd like to amend that slightly to end with You'll Never Be More Than What You Already Are. What are you now?

You're just a cog in a machine. A serf working for the baron of industry. A wage slave. Slave? Yes! The shackles may be silver or gold, but they're restraining you nonetheless.

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When most people think of making a change for the better, they go for the third option. A new job. That is the "normal" choice. It may provide a better income, and a familiar structure. It is also the choice that we have been taught as the normal route for people with ambition. If you are reasonably able-bodied, you are expected to "hold down a job." Each job is supposed to be a rung up the ladder to a new job. Unfortunately, most never reach the top of the ladder. They fall off on the way up due to office politics, due to lack of recognition, due to discrimination, due to heart attack from stress. Those that do reach the top are often struck with disappointment. Is this all there is? Oh yeah, you'll get your gold watch at retirement.

Few people tell you as you are growing up that you are perfectly capable of making the fourth choice, that of starting your own business.

That is sad, because many people feel trapped in a job, but feel helpless to quit. They have to provide for their family, after all. They are trapped into work they are tired of, for a company that doesn't really care about them, for a boss they can hardly tolerate. They fight a nasty commute to get there, and can hardly wait to leave - often with more drudge work in their briefcase that needs to be done on their own time.

Jay Conrad Levinson has written several books explaining why people still keep jobs they hate, and why they should make the break into a business of their own. One of his books was titled simply "Quit Your Job," and it made an enormous difference in my own life. It is out of print now, but you may be able to still find it. If you do, grab it. If I could, I'd reprint the entire book in this chapter, it's that inspirational. In "Quit Your Job," he describes perfectly what it is too often like to be a "wage slave."

"You have a job. With it probably comes a steady paycheck and fringe benefits, such as insurance, a pension plan, a bonus and a paid vacation."

"Perhaps you take pleasure in a few of your job responsibilities. Maybe you feel some sense of job security. It's enjoyable being with some of your co-workers, and then there's the company picnic and maybe the bowling team."

"Here's what else comes with a job for many people: boredom, confusion, frustration, insecurity, a lack of control, insufficient income, fear, a hard-headed boss, insensitive company policies, commuting, uncertainty, and eventual retirement - unless you get laid off or fired or your department is dissolved - to a life with too much free time and not enough money."

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Is Slavery Really Dead?

Are you honestly your own person?

If not, whose person are you? Your boss's? Maybe. Your company's? Probably. Whoever controls your time, behavior, income, responsibilities, attire and future controls **you**. Just as surely as a puppeteer controls a puppet. Maybe you've never seen it that way, but that is the way it is - as long as you have a job.

When you have a job, who will control you? Who will say when you have to get up in the morning, when you take your lunch, when you can go on vacation? Who will you have to beg for a raise, and who will you have to be nice to even if you hate their guts? Your boss!

Haven't we had enough of that? Whether you believe we were created by a Holy God, or evolved from prehistoric ancestors, or were dropped from spaceships, we are on the top of the intelligence chain here on Earth. We are too smart to have to go to somebody else and ask if you can have an extra half hour off for lunch!

Let's look at option four instead.

Being your own boss means that **you** are in control. You have gained the freedom to decide how your life is going to be run. You have the freedom to earn as much money as you want, to do the kind of work you like, where you like to do it (in your pajamas if you like), and when you want to do it.

Imagine the feeling - getting up in the morning when YOU like, not having to blend into the flow - or more likely the crawl - of all the commuters. Not having to put on the corporate uniform. Not having to wait till the weekend or dreading the Monday, like all the other wage slaves.

These freedoms and many more are part of being your own boss!

Life without a job is something you've probably never known before. Most of us went from the parent telling us what to do, to the teacher telling us what to do, to the boss telling us what to do. This will be different! It will take some getting used to - but you will enjoy getting used to it!

You'll now be excited about work, because it is all your idea, your effort, your way. Your income will depend not on some arbitrary wage scale, but on how well you do your work. Finally, you get to decide how much money you make.

That's economic freedom!

Being an independent business person, you'll have opportunities jumping out at you all the time. These opportunities just don't present themselves to wage slaves - and even if they did, wage slaves have no time to pursue them. You may hear that a company or government agency is looking to

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purchase a quantity of gizmos, and recall that you were talking just the other day to someone who had a lot of gizmos sitting unsold. Believe it or not, such serendipitous things happen all the time to those who have the freedom to pursue the opportunity.

That's opportunity freedom!

When you are a wage slave, you have to ask for time off for a vacation. Hopefully it can be worked out so your spouse can get the same time off, and at the same time the kids are out of school. Sometimes not. As a self-employed person, you have the freedom to balance your life as you wish.

Many self-employed people work only three or four days a week. Some work only mornings. Some don't get out of bed before noon. On the other hand, some choose to work twice as many hours as they did while a wage slave. While I think that's missing part of the point of self-employment, they do those hours because it is their **choice**. As your own boss, you decide your hours.

If you love travel, you can take off whenever you want, and stay gone till YOU decide you need to come back. If you want to take a day off to just rest and relax, you do not have to ask permission from anybody. You don't have to call in with a phony "I'm sick" excuse. You just do it.

That's time freedom!

One of the most interesting trends among the self employed is people moving their business to wherever suits them best. If you don't like winter, you can move to Tallahassee or Tucson or Tahiti! People are moving themselves and their business to a farm in the country, a cabin in the woods, or a boat in the harbor. With the modern technology, you can do many businesses from just about anywhere.

That's geographic freedom!

As your own boss, you'll find a new sense of pride in your work. You begin finding that you get more done in five hours of activity on your own than you did in five days working for somebody else.

As noted by Barry Tarshis in the Inc. Magazine Office Guide, 22% of the day is spent by the average executive writing or reading memos. Almost 40% didn't need to be written in the first place, according to the executives that read them. According to some, as much as 70% of the day is spent taking care of internal matters, such as meetings, reports and filing, activities not directly concerned with filling the customer's needs or making a profit.

As your own boss there need be no meetings, no waiting for orders, no memos, no dead time. Since you alone decide your hours, and your time directly affects your income, you find ways to spend your time wisely.

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More importantly, being your own boss means you and you alone are in control of your life. Don't you think it is time for you to take control?

There will be problems, to be sure - but you can easily overcome them - because you are in control. You don't have to make suggestions or wait for approval on a request. You can take action immediately. it's your show! And just as surely as there will be problems, there will be triumphs. You will enjoy these immensely, because you are the one who made it happen.

"When you paddle your own canoe - you get to steer."

-Anonymous

3. Successful Freedom

You will not be alone. The most significant economic change happening in the work force today is the rapid increase in the number of the self-employed. It is revolutionizing the way America does business. In contrast, do you know how many net jobs have been added to the economy by the Fortune 500 companies since 1980? None. Not one single job. In fact, the major companies have eliminated five million jobs, So the burden and the momentum of the economy has shifted to the entrepreneur. The INC. 500 list of America's fastest growing small private companies has had an average growth rate of 103% yearly, with the average company adding nearly 23 employees every year.

By deciding to become free, to become an entrepreneur, you are part of a movement sweeping the country, At the same time that more and more people are evolving out of wage slavery and into economic freedom, the move is made easier because of the rapid change in the tools available. Those tools are allowing many people to start their business from home. An estimated 25-40 million Americans are home based business owners now. The exact number isn't known, since many are not registered or licensed anywhere. What is clear is that the numbers are growing rapidly - about 10% a year.

Part of success in business is determined not by how much money you make, but how much you get to keep. Being homebased allows you to keep much more of what you make. There is no reason to have the overhead of a commercial rent in this business. Start it from your home - and keep it there!

Three Success Traits

There are three traits that I feel will be necessary for your success, in this or in any business.

1. Persistence.

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Napoleon Hill, probably the inspirational father of all entrepreneurs, made a study over many years of his two heroes, Henry Ford and Thomas Edison, trying to figure out what made these two inventors such dynamic and productive geniuses. He finally decided that:

"I found no quality, save persistence, in either of them, that even remotely suggested the major source of their stupendous achievements."

The next trait is closely tied to the first:

2. Optimism.

This is not pie-in-the-sky thinking or hoping that somehow everything good will be given to you by Divine Gift. It is a belief that if you work your tail off for something good, Divine Providence will ensure your efforts are rewarded.

The optimist sees the chance to start or expand a business even when there is a recession on. The optimist know something very special about himself (or herself) -that all that is needed for success is what is inside. What the mind can conceive, and the heart can believe, will be achieved.

"Nurture great thoughts for you will never go higher than your thoughts."
- Benjamin Disraeli

There will always be people around you that will come up with many good reasons why you cannot succeed at starting your own business - or if you do succeed in starting, why you will fail before long.

"The economy is too tough"

"You don't have enough experience"

"You are undercapitalized"

"The 'big companies' will eat you up."

"Don't you know most businesses fail in the first few years?"

"Your family will starve. How can you be so irresponsible?"

Ignore them. Press on. You can do it if you only have enough guts to stick it out. Believe in yourself. You were created with all the talent and intelligence needed to do this. Plenty of folks have succeeded who were less intelligent, less educated, and who started with far less.

A tool for optimism is to visualize your goals. Set goals and concentrate on them. Write them out on a sheet of paper or a 3x5 index card, and make sure you look at your goal list several times a day.

A really great speaker came to talk to the real estate office where I worked. She showed us her watch, and it was a nice one, but what was unique was that there was an orange dot sticker stuck to the face. She explained that the orange sticker represented her goal of having the cash and time to take a European month-long vacation. She had given herself a deadline to do it, and every time she looked at her watch, she was reminded of her goal! (I now have a dot on my watch, too!)

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3. Balance.

This third trait needed to succeed is perhaps the hardest to maintain. The point to becoming your own boss is not (I hope) just to make a ton of money. The point is to gain freedom and control over your own life. This truly marks the successful entrepreneur from the ones who may be growing a great company, but are killing themselves in the process.

One of the myths about entrepreneurship is that if you own your own business, you need to become a workaholic. I debunked it before, let me do it again, because this is the worst kind of nonsense!

You may need to work long hours - for a while in the beginning. (In fact, it has been said that you'll have to work 80 hours a week for yourself if you want to avoid working 40 hours a week for somebody else!) You may need to work harder than ever before - for the first several months -maybe even the first couple years. You might decide to do it forever! The key is, are you having fun?

If you're not having fun, you're not doing this right!

It may be stressful at first, but if it doesn't start being fun after several months, reevaluate how you are working. Can't you delegate some of this, or hire a freelancer to do some of it? Remember always that the real goal is not simply making a fortune, but gaining freedom and control over your own life!

There are going to be a lot of stresses, worries, and excitement in running your own business. You need a way to recharge your batteries, to find some peace when the world gets too hectic. I believe that faith in the Almighty is a big help. Whatever your concept of God, keep the faith. You need some quiet time every day to recharge those batteries. Some find their quiet time early in the morning before the rest of the family is up, some take a break halfway through the day and lock their door for an hour of contemplation, prayer, and/or relaxation. Some take a walk in the cool of the evening. Whichever time you find is best for you, make it a standing appointment that you will try never to break~ Get away from or lock out all other claims on your time, other people, and all media. You need to be still, to rest and to think.

At first, it may be uncomfortable. In this day and age, we are not used to being still, or experiencing quiet. An hour may seem like too long to spend away from your responsibilities. It's not. Try to keep this time sacrosanct. If you find you have to cut it down on occasion, do it grudgingly. You will approach life with a better perspective if you do this.

Plan in leisure time. Vacations are yours to schedule - one of your new freedoms. You should 'earn' at least 30 days a year for yourself. Even the military gives people that much! Vacations are a necessary counter to stress, and can actually improve the way you do business. Don't pass them up.

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Every perk that you think a job could offer, you will be in a position to give yourself. Do you like the idea of a big leather executive chair? It's yours. Do you want a company car or an expense account? As soon as you can budget them in, do so! You are the President of your company, the CEO, the big cheese. Spoil yourself a little. Just remember you have to bring in enough profits to cover these 'perks'. But is it any different in the wage-slave arena? If you don't bring in the profits, the goodies are given to someone else!

Your being an entrepreneur can be hard on your family, at least at first. The first few months it may look like you are spending all of your time working, and not making any money. Your family may begin to resent your decision, if you do not plan in time together. Schedule time spent with them and keep that time free. Remember - you're the boss, and you have the freedom. Besides, a supporting family is an asset to your business - so take care of them!

As you become successful, family support will likely grow. Your hours may become less, your income will start flowing, but that is not the real reason why your family and friends will feel good (though envious) about you running your own business.

The real reason they will like it so much is because you will be so much happier! And if you are happy, you are much nicer to be around. As you start realizing the full potentials of your freedom, your enthusiasm and enjoyment will be infectious. You will have evolved from a wage slave to a truly free person!

Another part of balance is the knowledge that you are in a constant state of change. We all are. It is up to you what direction that change will go, but you cannot stop it. You age, your mind learns from each experience and how you deal with it. You need to ensure that the changes in your life are positive.

Keep changing, positively.

Some of the ways to ensure you continue changing positively are:

1. Continue learning. Take courses at your local community college, attend seminars, read - and read - and read. Many courses and seminars are very low cost, such as those given by the Small Business Administration. Get hold of every business and motivational book and tape you can buy, beg or borrow. Subscribe to the magazines devoted to the entrepreneur, such as Success, Entrepreneur, Inc. and Home Office Computing. Subscribe to newsletters that pertain, such as Home Business News, Smarter!, etc. There are hundreds of newsletters, catering to every specialty.

2. Be ready for inspiration. Carry a deck of 3x5 index cards with you and write down any tidbits of information you run across in your reading that interests you, or stray thoughts that pass through your mind from time to time. Inspiration knows no time limits. You may have a great business idea

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while sitting on the porcelain throne, or in your car, or sitting down to dinner. If you don't write it down immediately, you may not be able to recall it later, so carry your cards all the time.

3 Grow your library. Start now to acquire a library of business and motivational books. You can get some of them second hand, at garage sales or used book stores. I list sources in the back as well. The library is great for looking up things and borrowing book to read - but you will want to keep working on your own bookshelves. Some of the books on my shelf are getting pretty dog-eared from the many times I refer to them. They are the best kind of partners and advisors - always faithfully there with the best advice.

Winning Attitude

Is all this talk about persistence, optimism and balance necessary to starting a business? Believe it or not, the right attitude is just as important as having an idea - other people's ideas can be easily purchased. It's just as important as having enough capital - many enterprises are founded with no cash at all! It is just as important as any other facet of starting a business - and requires no capital to develop. So start today!

4. State of the Industry

The more "high tech" and complex the world becomes, the more people long for the handcrafted item. We've seen no decrease in demand for these 'quaint' items - indeed, attendance at craft shows and sales continue to climb at an impressive rate.

The results of the first major craft economic impact survey were announced by The Craft Organization Directors Association (CODA) on April 2, 2001, at the CODA 2001 Conference in Asheville, North Carolina. The survey is the first of its kind and was undertaken in an effort to prove that the making and selling of handmade objects has significant economic impact. Generally acknowledged as a valued contributor to the cultural and educational life of the United States, the size and impact of the craft industry has never before been measured.

The results of the CODA survey are expected to prove to business and government leaders that craft is a viable and sustainable industry worthy of investment and support. The results will draw attention to the important relationship between crafts and cultural tourism and validate the craft industry as a vibrant and growing network of small businesses. Armed with accurate statistics, state and regional craft organizations will be able to partner with economic development agencies to promote strategies encouraging growth and development of this important sector of home-based businesses. A crafts person will be able to use these statistics when applying for a business loan or developing a business plan. The study findings validate the craft industry as an industry, and draw attention to small and also home-based businesses, which are both growing sectors of the U.S. economy.

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These statistics are drawn from The CODA Survey: The Impact of Crafts on the National Economy, prepared by the Center for Business Research, John A. Walker College of Business, Appalachian State University, Boone, NC, March, 2001. The Craft Organization Directors Association is an organization whose mission is to support the work of craft administration professionals of state, regional, and national craft-related organizations.

Economic Facts

- There are 106,000 to 126,000 craftspeople working in the United States today.
- The average gross sales/revenue per craftsperson is \$76,025.
- The total impact of craft sales is \$12.3 to \$13.8 billion per year. This is one-third the volume of shoes purchased in the US and four times the value of taxicab rides.
- Median household income of craftspeople is \$50,000 per year, 26% above the national median of \$39,657.
- Income from craft activities comprises 47% of household income on average. 22% of craft households derive all of their income from craft.
- Direct retail accounts for 52.9% of annual sales, with just over one-half sold at craft fairs.
- The average craftsperson derives 27% of annual sales from wholesale and 11.2% from consignment to galleries.
- Craftspeople that have paid employees have three times the household income and ten times the sales/revenue of those that work alone.

Demographic Profile

- 64% of craftspeople are female.
- 41% are between the ages of 46 and 55. The median age is 49.
- 79% of craftspeople work in a studio located on or in their residential property.
- 78% are members of a craft organization.
- 64% work alone in a studio, 18% work with a partner or family member, and 16% work with paid employees.

Over 84,000 surveys were mailed directly to craftspeople who earn all or part of their living from the sale of handmade objects and other craft-related activities. Names and addresses were supplied by local, state, regional and national craft-related organizations. The survey was also distributed through The Crafts Report, other trade magazines and newsletters, and was available on the Appalachian State University website. The results of the study are based on 7,500 completed surveys, a return rate of 7% of the available 100,000 surveys.

Copies of the full 70-page national report are available for \$50 (\$35 for CODA members). Contact Laurie Huttunen, Project Coordinator at HandMade in America. Phone: 828-252-0121; Fax: 828-252-0388; Email:

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wncrafts@aol.com. HandMade in America is a nonprofit organization whose mission is to promote the craft industry as an integral component of community and economic development in North Carolina

5. Markets

Crafts are sold in many different ways, to people of all sorts. I don't know of a single market that cannot include crafts of some type.

Crafts are very typically sold:

Wholesale

- at trade shows
- direct to merchants who then resell them
- through trade publications

Retail

- through consignment in shops
- from booths in shows
- using mail order ads in magazines
- over the Internet from the crafter's website
- in the online auctions, such as eBay

We'll discuss each of these in more detail in the marketing section, but the point here is to show that the market is both large and varied.

6. Personal Requirements

Imagination

This is very much an imagination business. The more you can come up with clever, original ideas, the more you'll be able to establish yourself as an artist to be collected and sought after. There are far too many people in this business to are 'copycat' crafters.

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Don't get me wrong -- you can make a decent living making spotted wooden cow cutouts, or faceless dolls leaning up in a corner. But we've all seeing these before, and nobody will remember you if all you do is copy others. More importantly you won't be able to make that leap in price from ordinary to extraordinary.

This is so important we include a section on boosting your creativity.

Organization

You may be working on dozens of projects and you may be doing this part time, at least in the beginning. You may have orders from clients to fill, shows to prepare for, and suppliers to cultivate. You have to have some way of keeping track of these details.

Fortunately, organized does not necessarily mean neat and clean. I don't care a smidgen about how your workspace looks. Your contact with clients will almost invariably be at their place of business or their home. They won't see how neat or messy you are. But you must have a system of organization.

Dependability

It won't do your reputation any good to deliver what the client ordered on the day after it was due. If it takes working all night, if it takes effort far above what you thought it would, you must make sure the order is delivered as promised, or before. Your reputation depends on it, and a good part of your marketing will depend on your reputation.

Sense of Timing

if you're going to have a booth in the county fair at what point you need to get your reservation in? How long will it take you to prepare enough merchandise to make the event highly profitable?

Sales Focus

In the early stages of growing your company your survival and success will depend 90 percent on selling. So you and any staff, must talk about your company and its product everywhere you go - on sale calls; in line at the movies; at PTA Meetings. For the next few years you've a mandate for nonstop selling.

- Alan Gregerman, in Success Magazine

We will cover how to market your service in more detail later. I want you though to re-read the above quote, and take it to heart. Your job the first year at least is not to the President of your company, or whatever title you

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want to use. Your job is to be the sales force for this new craft business in town. It is a mental attitude, and an entirely different way of approaching business.

Drive

Don't expect to get rich right away. While there is good money to be made in this business, it will take time to get off the ground and your clientele built up. Time to get some income coming in, and longer to make the whole thing create any substantial income.

As Executive Director of the Olympic Home Based Business Association, I have seen the same pattern in many people who start their own business. When they start, they are happy, excited, eager. They tell everybody about their business, pass around business cards like crazy, and are full of optimism. As the months go by, they get more and more subdued and quiet. Usually about the six month point, they are downright discouraged. Their bills are bigger than their income. They are beginning to think that starting their own business is the stupidest thing they could do.

Some bail out. Those that do persevere though generally find that things start turning around for them. But you will need the drive to keep going when everything looks black. Remember, the only way to fail in business is to quit. Many entrepreneurs even go bankrupt and otherwise fail at their business not once, not twice, but several times before they finally become successful. The key is that they never quit.

Press On. Nothing in the World Can Take The Place of Persistence.
Talent Will Not;
Nothing Is More Common Than Unsuccessful Men With Talent.
Genius Will Not;
Unrewarded Genius Is Almost A Proverb.
Education, Will Not;
The World Is Full Of Educated Derelicts.
Persistence and Determination Alone Are Omnipotent.
-Calvin Coolidge

If you have that drive, or have somebody who will be your coach and "prodger," then there is no reason why you won't succeed.

7. Financial Requirements

You will need some money. Not a lot, but there are of course some expenses involved in starting any kind of business.

Permitting Expense

You will need to get a business license. Typically, that will be a state or provincial license. You may also need a local city or county license. Inquire with your local town, city or county clerk.

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Insurance

At some point you'll want to get protected with adequate insurance.

The old saying is true - anybody can sue anybody for any reason. You don't want to be spending time in court that you should be spending on your business, and you don't want a huge lawsuit award to wipe you out.

The main insurance you'll need is general business liability. This is to protect you against lawsuits that arise from performance in your business.

You'll also want to amend your auto insurance - it probably says "not for business use" now, which means they won't cover you in an accident if they find out your trip was for business.

You should consider also amending your homeowners or renters insurance. While you may or may not have business visitors to your home office (in which case if they slip and fall or are otherwise hurt you are covered), you will want theft and fire coverage for your office and its equipment.

Of course, you'll also want to protect your most important asset - you! As a self-employed person, you are not generally eligible for government or corporate health insurance benefits. You'll want your own health insurance (including dental and optical), life insurance and insurance to cover your family.

Umbrella policies may save you quite a bit of money. Depending on how broad the "umbrella" is, one policy may cover most or all of your insurance needs. That is usually quite cheaper than the total cost of many individual one-purpose policies.

Another cost-saving tip is to shop the insurance around vigorously. You will find widely varying rates from different insurers - even different offices of the same insurer. Most offices are independently owned and operated, and how they rate and write up the policies will vary from one to another. One group that helps self-employed people with health and other insurance is the National Association of the Self Employed. How to contact them is included in the resources section of this manual.

Another type of insurance that you might want to investigate is a pre-paid legal plan. Under these plans, you pay a monthly or quarterly premium. In return, you have access to legal assistance for no additional charge for many legal needs, and at greatly reduced rates for others.

Marketing Budget

It takes money to buy ads, it takes money to print brochures, to rent space for a website, even to join a networking organization.

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When getting your business off the ground, you want to create a good working budget. I recommend that the first year, 40% of your available money goes into marketing, 30% the second year, 20% the third, and 10% every year after that.

8. Creativity Boosters

Everyone of us are born to be creative, are born to have unlimited potential for creating. But as we grow up, we give away more and more of our creative potential. As a child, we lose up to 75% of our creativity. By the time we are 40, we are nearly expressing less than 2% of the measurable creativity we demonstrated as children.

What kills your creativity more than anything else is routine.

If you do the same thing every day, soon your mind slips into autopilot mode, and you go through the motions everyday.

So here is homework for you - every day, come up with something new and different to do. It doesn't have to be something wild like bungee jumping naked (though that could be on your list someday)

If there is a shop you pass by that you haven't stopped into before, plan on doing it.

Get on a bus without looking at the number, and just see where it goes and what you can see along the way.

Walk into any restaurant (the more unfamiliar the better) and order without looking at the menu - just "I'd like number 8 please" (or whatever number you want to choose).

Pick up a magazine you haven't looked at before.

Listen to a radio station you haven't tried - even if you don't like the music (you can limit your time to half an hour or an hour if you really can't stand it)

Try to find articles/seminars/books with a point of view that is very different from your own on something that is important to you.

Keep a journal of ideas. You don't have to worry about writing complete sentences or developing ideas fully, just note them as they occur. It is however useful to put the date on the top of each page.

Steal ideas. No, I'm not telling you to violate copyright or trademark or even copy individual craft items. But if you see a great cartoon, a clever technique used, or a great way of expressing something, note it down. You won't actually steal anything, but looking at what you find clever will help your own creativity.

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02-Getting Started

Contents

1. Equipment
2. Name
3. Legalities
4. Deciding on Scope

Any corrections or additions? Please let us know!

1. Equipment

A computer is just about required equipment for any business in today's world. You don't need the latest and greatest model. Just a basic desktop computer will work (although I recommend you go for the best you can comfortably afford). A laptop, notebook, or subnotebook computer would be even better, considering how mobile you are going to be.

If you are going to be doing business with other business, than you need to have a fax. It is the way business is done today. Business owners will ask you to fax over a proposal, fax over literature, fax an invoice. They will want to fax in orders. The fax can either be a stand-alone model or a fax/modem built into your computer. You can also, in a pinch, use the fax at a local mailbox or quick print shop, or even some supermarkets. <http://www.J2.com> is a great online fax alternative.

A modem is also a necessity. In our rapidly changing world, people are asking for your e-mail address as much as for your phone number. E-mail is the way many people prefer to communicate. More importantly, is this \$40 a month box.



That box represents how much advertising space you can buy for \$40 a month in most newspapers. Not much room to tell your story. Certainly not enough to educate the public on why they need you.

On the other hand, \$20-\$50 a month is the average charge to have your own Internet Web page, which is available 24 hours a day, 7 days a week to anybody interested in knowing what you can do for them. It's a "no-brainer" - you need to be on the Internet.

You should also have a cell phone, or at least a pager, so that clients can get in touch with you. Many of your jobs will be last minute things, so clients won't be content to just leave a message on your machine.

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If you are going to be offering delivery, reliable transportation of course is a given. The size of the transportation is going to depend on what your workload is. A van will be better than a sedan, for two reasons. One you can carry many more things, second you have more room on the sides to advertise!

if you are going to be mailing your items, you'll want to obtain a postal scale that can measure up to your heaviest items weight. Knowing your precise shipping weight can help you save significantly -- often only an ounce or two make a difference in which shipping method to use.

The equipment to actually produce your craft will obviously vary depending on your particular specialty. Woodworkers need much different equipment than potters, but they share one common element -- both can cost a lot of money if you go out and buy top-of-the-line items brand-new. I first recommended searching through the online auction sites, and craft shows, for used/discounted equipment.

Other than that, normal office equipment (scissors, stapler, tape dispenser, etc) are all that you need.

2. Name

The name you come up with for your business can be one of your most powerful marketing weapons. This is a business that requires a catchy name. You might want to convey the image of what you are selling - creative, collectible craft items - in the name. Another option is just to pick a name that is very easy to remember, regardless of whether it applies to what you do. I have no reasonable to believe that "Amazon" has anything to do with books. It's a river in South America, and a race of probably mythical warrior women -- but it is easy to remember!

You should check to see if your name is available, of course. Some states do that as a matter of course when you apply for your license. You can also use modern technology to help you research a name, on the Internet or on CD-ROM. You can check if a name has been federally registered as a trademark at <http://uspto.gov>.

If of course somebody in Orlando is using a name, and you want to use the same name in San Diego, there probably isn't any practical reason not to. It is unlikely that either of you will conflict with the other. If you are on the Internet, you'll each have a unique domain name, so the company name (while ideally the same as the domain name) isn't as important there.

There is no nationwide register of business names - the only way to protect yourself from somebody else in another state using the same name would be to get a business license in every single state. Then you would have to worry about Canada, etc.

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If somebody else somewhere has the same name, that can actually be a good deal - if they do effective marketing they'll be building brand name recognition for your business, and you'll be doing the same for them. Some people are very sensitive about such things however, so the possibility exists, however tiny, that the other nameholder might raise a fuss about it if they find out. Perhaps you can work out a deal, and carve the country in two between you!

3. Legalities

The name, like the whole subject of legalities, is an area that causes some people a great deal of worry. It probably won't help if I tell you that most of those worries are unnecessary, or that none of us is completely law abiding - at any given time we are all in violation of some rule or regulation somewhere. That's just the nature of our over-regulated society.

Many will be living in a neighborhood that still has stupid laws prohibiting any business from being done there. Or a Planned Development that has covenants and restrictions that prohibit the starting of a business. Does that mean that no business is going on in those neighborhoods? Of course not. It is just that people have to be more discreet than they should have to be, and accept the fact that they are technically illegal.

It is probably a good time to recommend that you start your business using the address provided by a local private mailbox company. Choose one that has been around for a while, and appears to be doing well. Hopefully they will stay in business, so you don't have to change your address. That is about the only problem with setting up a business with them.

The advantages of a private mailbox surely outweigh that risk. You get a business address in a commercial zone. It is a street address rather than a PO Box, because in some people's minds a PO box might be a fly-by-night rip-off. Your address might be 136 West 5th #105. You currently may use either a # (pound) sign or PMB (for private mailbox). Unfortunately, the current rule state that you can not use "Suite" or "Room" or other designation instead of the # or PMB. There is still considerable opposition to the new rules, and at some point we hope to overturn them (<http://postalwatch.org>)

Regardless of whether you can continue to use the "suite" addressing, private mailboxes have other advantages. A private mailbox can get delivery from private carriers. UPS, Airborne, Federal Express can't deliver to a PO Box.

You also gain a degree of insulation between you and those who might just want to "drop by" at odd hours. That is a security plus as well - we live in a strange world!

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One last benefit is that a private mailbox company is typically a lot more customer service oriented. You can have them forward your mail anywhere you like. You can call down and ask what is in your mailbox. If nothing (or only bills) you might not need to make that trip today.

Different local jurisdictions you may be passing through doing your business may also have laws on the books which would indicate that you have to get a local license in each. This would be a ridiculously high burden for small businesses, and most just get the license for their business address location, and ignore the rest. Best not to ask!

4. Deciding on Scope

In the beginning stages of your business, you'll want to do a bit of visualization. Where do you want to be in the business a year from now? Three years from now? A decade?

Do you want to be a region-wide service that has dozens of associates and serves hundreds every day? Or would you like less stress and still be a one-person, small operation where you maintain personal relations with all your customers. Success means different things to different people. You don't have to buy into anybody else's vision.

It is important to think about where you want to be in the future. How aggressively you market, and how you set up the business may be slightly different if you are going to be a mega-business or a tiny business.

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03-Business Boot Camp

Contents

1. Why Business Boot Camp?
2. Permitting
3. Business Plan
4. Forms of Business
5. Insurance
6. Taxes
7. Finances

Any corrections or additions? Please let us know!

1. Why Business Boot Camp?

No matter what business you are getting into, there are certain basics to running a business that are necessary to success. You need to be able to avoid legal and financial problems if you are going to be able to do the "more fun" parts of your new entrepreneurial life.

Unfortunately, we are not well prepared for business ownership. Our academic system is geared towards creating employees, not employers. We are taught that the goal is to get a job, not create your own. So the training that should be there in accounting, in marketing, in planning and in business administration are lacking from most of our backgrounds.

How do you counter that? You need to take the initiative and learn on your own. Take classes that are offered at your local college or private seminar company. Subscribe to business magazines. Read business books. At first, it may seem dry, but as you get into it more, soon that is what will dominate your reading, and you'll find it fascinating. Talk to business owners, especially successful entrepreneurs. Join business associations. In other words, surround yourself with business, and soon you will be fluent in it.

We are going to discuss some of the more important issues here, and more detailed information can be found in our Special Reports.

2. Permitting

The first step to getting your business started has to be to get your business license. This is a state government requirement, but the real reason to get one is Federal.

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Once you are officially in business, you can deduct from your taxes any expenses associated with getting your business up and running. These include such things as equipment purchases such as computers, seminars and manuals, professional subscriptions and the like. If you are not yet in business, the same expenses are considered personal expenses, and not deductible. While it is possible to claim the deduction without having obtained your business license, the lack of one could be evidence for the IRS to disallow your deduction, and conversely having one is the simplest evidence should the deductions be questioned.

Note that you do not need to be making sales yet, and in fact you need not make any profits for some time. The IRS has a guideline that you should make a profit three out of five years or risk having the expenses termed hobby expenses instead of business expenses. This is a guideline only. If you could prove that you were seriously trying to run a business, could demonstrate vigorous marketing efforts for instance, but had not yet made a profit, there is little likelihood that you will lose the deduction.

In most states, the state business license is a relatively simple matter. You should also inquire about a resale number. This will allow you to purchase items from wholesalers without having to pay retail sales tax. You collect sales tax later from your customers and then forward that money to the State.

Your local city, town or county government may also require a business license in addition to the State license. One word of caution - I cannot advise anybody to do anything illegal. However, if you are planning on operating a home-based business, be aware that many places have prohibitive ordinances in effect. Inquire anonymously what the restrictions are in your area, and then decide if you want to proceed or not.

If your community does have bad restrictions on home based business, I encourage you to join a local association for home based business owners and work to get the rules changed. The zoning laws were an industrial age invention that have not kept up with the rapidly evolving post-industrial economy. The old idea of commercial staying in a commercial area, and residential in a residential, is being shaken by the huge movement towards home based businesses.

3. Business Plan

Should you write a business plan?

Would you start out on a cross-country trip without a detailed map and itinerary?

There are really two answers, of course. Some would not think of going anywhere beyond their own neighborhood without a map and turn-by-turn trip plan. Others prefer the adventure of "winging it" Most business experts recommend that you write a good business plan. By doing so, they say you probably increase your chances of success significantly.

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There is one caveat to all this though. It seems that if you ask many of the most successful entrepreneurs, you'll find a surprising number of them did not write out a business plan. In fact, some of them say that if they had tried to do so, the questions that a business plan forces them to ask would have scared them out of continuing the business. From some, you hear how they broke all the rules, because they didn't know the rules.

In fact, in 2002 68% of the Inc. 500 fastest growing private companies were started without a business plan. The answer seems to lie in the passion and the circumstances. If you are fired about an idea, that you know in your gut will work, go for it. Don't let anything stand in your way. The same applies if you have no choice, if you've just been fired and it's either start your business or sink. **You should start immediately.**

Whichever the case, realize that if you are starting without a plan, you have the chance to succeed greatly, or fail greatly. If on the other hand, you are approaching self employment in a methodical manner, and there is no hurry, by all means write your business plan. It will force you to think more clearly, and probably require you to do some research. A business plan will not prevent failure, but it may make it less likely.

You will definitely need to write a business plan if you are going to try to attract outside financing, either through a bank loan or private investors. Almost any lender is going to want to see a business plan. There are many different formats for business plans. This is a simple one that works well for just about any business.

Think through and write about each one of the topics. It doesn't have to be long, but it does have to be well thought out.

1. 1. Executive Summary - a one or two page document that describes the business
2. 2. Overview - The fundamentals on which the business is built
3. 3. Introduction -
 - Purpose
 - History
 - Benefits
 - Goals
 - Critical success factors
4. 4. Business Environment -
 - Regulatory
 - Market
 - Problems
 - Expansion
 - Potential<3>
5. 5. Description of Product or Service.

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- Unique selling points
- Benefits
- Problems
- Patents, licenses, etc.
- Production strategy

6. 6. Marketing Plan Should be written as separate plan, and excerpts included here.

- Sales
- Goals
- Public Relations
- Economic environment
- Industry environment
- Customer profile
- Demographics
- Trends
- Competition
- Marketing channels
- Sales tactics
- Pricing
- Packaging
- Sponsoring
- Marketing calendar

7. 7. Operation Plan Should be written separately and excerpts included here.

- Management team
- Advisory Board
- Human resources
- Personnel Manual
- Policies
- Guarantees
- Facilities and Equipment
- SOPs (Standard Operating Procedures)
- Growth/expansion Plans

8. 8. Financial Plan Should be written separately and excerpts inserted here.

- Financial condition
- Revenue Projections
- Break-even Analysis
- Credit
- Cash Flow Projection
- Balance Sheet Projection
- Insurance
- Taxes
- Controls
- Financial History

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- Financing Requirements
- Financial Ratios

9. 9. Financing Proposal

- Amount needed
- Detailed Budget
- Repayment Options
- Collateral

10. 10. Appendices

- Schedule of major events
- Key-Person Resumes
- Facilities Documents
- Equipment Documents
- Organization Chart
- Competitor Documents
- Major customers
- Customer contracts
- Principal Suppliers
- Supplier contracts
- Insurance Policies
- History of sales
- Bank Documents
- Advertising Samples
- Any other pertinent docs

There is no one proper way to write a business plan. It is a fluid thing, a working document that you should not be afraid to go in and "polish up" a bit from time to time - even every day if need be!

Business plans serve two main purposes : To guide your business in both everyday tasks and in growth; and to present to funding sources for capital. It is not at all unusual to tailor a copy of the business plan for each purpose. For the operational (in-house) plan, you stress cost savings and go into much more detail. In the fund seeking business plan, the soundness of the company and the potential return on investment are stressed, while many of the operation details are glossed over.

If you are seeking outside financing, prepare a funding proposal (1-3 pages) that can accompany the business plan. The plan should be targeted to a specific lender, and reworked with the names, terms and conditions being sought from each lender.

Remember that a business plan is meant to be a working document, not an archive gathering dust on a shelf. As such, it should be frequently reviewed and altered.

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Breaking the Plan into different segments, as recommended here, makes updating much easier. Your Marketing Plan may change for instance, without any other part of the Business Plan changing. By separate plans, you avoid having to repaginate and reindex the whole Business Plan. Keep a "clean" copy that you can use to present to potential investors, and a "working" copy that you feel free to scribble on, make pen changes to, and use as a daily guide. It is a great use for your computer!

The important caution is that you don't become so trapped into planning, that you don't get started. Too many would-be entrepreneurs spend all their time thinking and dreaming, when they should be doing. Don't worry about perfection - hammer something out and move on!

That is why having help is good. Together, they give you a complete framework to make a near-perfect Business Plan. You'll impress anybody that looks at your Plan, stand a great chance at winning funding, and what's more important it will be a valuable working document that will help your business succeed.

Many sources of help exist. You can order the following Special Reports from Biz\$hop, which will allow you to do your plan easily.

- **R10601 Writing A Business Plan**

You won't get a bank or investor to look at you without a good business plan. This report covers how to write a good one! Even if you aren't going for financing, a business plan helps you focus on your business goals.

- **R10602 Writing A Marketing Plan**

The Marketing Plan goes hand in hand with your business plan, and can quite literally decide whether you succeed or fail. Our report explains how to do it right, getting maximum customers for minimum money.

- **R10603 Writing A Financial Plan**

The Financial Plan is the third important Plan to prepare. It details how cash flow will be handled, proceeds disbursed, and provided a budgetary outline to make sure your business is profitable. With a Financial Plan, you're quickly alerted to declining profits and are able to rationally handle unexpected profit growth.

- **R10604 Writing An Operations Plan**

The Operations Plan covers the day to day operations of the company. It generally includes your personnel manual, safeguards, policies and all the procedures of doing business.

- **R11108 Start-up Plan**

Step by step checklist of things to accomplish or consider when starting a new business. Over 500 items - going through these will be a great start on a business plan. Includes legal, financial, physical, marketing items.

Each of the above is \$7, or you can save 20% by ordering all five for \$28.

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There are several computer based programs for sale that will help you write your plan. The local community college or private seminar company undoubtedly offers courses on how to write a business plan. Your city or area Chamber of Commerce may have scheduled counseling sessions, classes or materials to help. Banks may offer individual or group help. Go to the library or a bookstore, and you'll surely find several books on how to write a business plan.

Last but not least, the Small Business Administration puts out a number of publications and a computer program to help you do this. They offer free assistance through area SBDC (Small Business Development Corporation) offices and through the SCORE program (Service Corps of Retired Executives). Check the phone book for the SBA, or contact them through the Chamber of Commerce in your area.

4. Forms of Business

One of the things you'll have to decide, even as you get your license, is what form your business should take. There are four main choices

- a sole proprietorship, or
- a partnership, or
- a corporation, or
- a limited liability company.

There are advantages and disadvantages to each. For most entrepreneurs, the easiest and usually most recommended form is that of a sole proprietorship.

The sole proprietorship simply means one owner, and is the "default" form. If you do nothing else, you will be set up as a sole proprietorship. The main feature of this form is that it is identified with and intertwined with you. If the business makes a profit, it automatically is income for you. If the business incurs a debt, it is your personal debt as well. If the business gets sued, you will be sued personally as well. This is both the strength and weakness of the sole proprietorship. You have complete flexibility, and can instantly shift the direction, policies and focus of your company. Yet if there is a problem, the potential for the damage extending throughout your personal life is ever-present.

The partnership is usually NOT recommended. It is like being married without being in love! You will know all the bad things there is to know about your partner. It can destroy friendships, and you are completely liable for whatever your partner does. If he or she orders a dozen Chinese junks, and then skips town with the money in your account, not only will you be out the money, but you will be liable for paying for the junks when they arrive.

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Partnerships can work, when there is a clear division of responsibilities and abilities. If you are a good negotiator, salesperson and "people person", but your paperwork is usually a shambles, and your potential partner is meticulous and detail oriented, but fears selling and meeting strangers, the two of you are a natural match.

One other way partnerships benefit is to raise more capital. Your partner's contribution may be what you need to launch your business.

The thing to do if you do contemplate a partnership, is to have a clearly defined partnership agreement drawn up. Have it checked by a lawyer. The agreement should specify what happens if one of you decides to quit. What if either of you dies? Who will do what functions? How will decisions be made. What if you can't agree? Who will pay for what? These things all should be settled beforehand, before they have a chance to cause disruption in the business. Nothing kills a business faster than feuding partners.

The third form of business is the corporation. It is NOT a magic bullet, like some seminar promoters would have you believe. There are two main advantages to incorporation.

First, you can have people invest in your company and raise money.

Second, because the corporation exists legally as a separate entity, there is a liability shield between you and your assets and the business. If the company gets sued, you may not be. Company debts are separate from your own financial situation.

There are two main types of corporation, the subchapter C and subchapter S. (They refer to subchapters of the tax code). The C corporation is your "standard" corporation. All the companies listed on the stock exchange are C corporations.

You can have unlimited shareholders. If you sell 100,000 shares at \$10 each, you've got a million dollars in capital to work with. The investors can be people, mutual funds, companies, foreigners, whatever.

The disadvantage to the C corporation is that of double taxation. If your business earns \$100,000, the first thing that happens is that a corporate tax is paid. Then if you want to draw a salary (for in a corporation you are in fact an employee), you must declare that salary and pay personal income tax. The same money gets taxed twice before you get to spend any of it. Recognizing the unfairness of this to the small business, the S corporation was formed.

S Corporation income is simply reported on the personal income tax returns of the shareholders, just as income from a proprietorship or partnership would be. In exchange for this benefit, there are limits put on S corporations. You are limited to 35 shareholders (at the time this is written - it may be changed) and they have to be individual people.

Why should or shouldn't you incorporate?

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You should incorporate if you need the extra trademark protection, if you have significant assets to protect, or if you want to avoid the problems of a partnership but still take other people into your company.

The liability shield only becomes really important when you have a lot of assets that would be vulnerable to business loss or lawsuit. After you get that yacht and the second vacation home in the ritzy neighborhood, you should definitely think of incorporating. In the meantime, cover your liability with business liability insurance.

The newest form of business is the L.L.C., or Limited Liability Company (sometimes shown as Limited Liability Corporation). It combines many of the features of a partnership with those of an S Corporation. It allows the reporting on personal income tax returns of the "partners", but with the liability protection of a corporation. It lacks many of the restrictions that applied to S Corporations.

5. Insurance

Shop around for insurance. You may find a tremendous difference between policies offered by companies, or even individual offices of a company, since many are individually owned and operated. You should have a million dollars of coverage or more, and the cost is relatively low. One of the drawbacks of being in business is that you become a more easily attacked target for lawsuits. You need liability insurance to protect against that.

If you will be using your vehicle for business, you'll need to get a business 'rider' put on your policy, since your normal auto insurance will not cover business use. The same goes for your office. If you are homebased, make sure that your mortgage or renter's insurance is amended to include business equipment and stock that you might keep at home.

Since you are going to be self-employed, you'll need to explore business interruption and disability insurance. Business interruption insurance covers the bills for those times when you cannot work for some reason. Disability insurance will provide for you if you are permanently unable to continue working.

You should also explore the possibilities of an umbrella type policy. This is where your different coverages, such as auto, home, fire, property and business liability coverages are bundled together, with a lower policy than you'd pay buying each separately.

You might also want to consider bonding. This is usually not required for this type of business (but check with your local and state authorities!). It can, however, be a positive marketing tool. People may be more likely to hire you if you can advertise that you are "licensed and bonded." Bonding is really nothing more than another type of insurance.

6. Taxes

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One of the drawbacks of being in business, and one of the benefits, is taxes. The drawback lies in that you become an agent of the government. You must now assume the task of withholding income tax, something as a wage slave was taken care of for you. In many jurisdictions, you must calculate and collect sales tax on each of your sales, keep account of it, and then forward the correct amount to the state. You'll rapidly learn the large tax bite that government on all levels takes out of your hard earned profits.

The benefits come from the fact that only your net income, in most cases, should be taxable. That means that expenses you incur trying to make that net income are generally deductible. When you buy equipment, incur correspondence expenses, or make a buying/selling trip, the costs can generally be written off as a business expense.

Both the federal government and most states offer free tax seminars and publications to small business. Write or call the IRS and your state department of revenue, and ask for their small business tax kits, and ask if they have any extra publications for service firms.

Note that I say "generally deductible", because the tax rules change all the time. Because of this, and because I am not a licensed tax professional, I won't try to explain all the rules. In this business, it is a good idea to both study the tax rules yourself, and to have a good accountant to help you out.

I recommend you find a new accountant, or one that has a small shop that has been around forever without really growing. While this sounds contrary to most advice, the idea is to find someone who is "hungry," who will be more aggressive in their exploitation of the tax rules than larger, more prominent firms. The larger firms are more interested in protecting their assets by being conservative. Having an aggressive accountant can literally save or make you several extra thousand a year.

There are plenty of bookkeeping programs available for the computer, but there is still a decided advantage to having a live person to help you out. You won't get the same quality of advice from a computer program, nor will the program explore unconventional ways to save you money on your taxes.

If you are going to do your own books on your computer, make sure that you have a good accountant or tax preparer help you in setting up all the accounts. It can save you hours of aggravation and redoing later.

7. Finances

One of the advantages of this business is that it is mostly customer financed. By that, we mean that the customer normally pays for things right away. You don't get into a situation where you have lots of money owed to you. This drastically cuts down on the amount of capital required. In fact, you can get this business going for very little.

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Estimated requirements (realizing that every jurisdiction and every situation will be different:

\$100 Licenses and permits

\$100 Initial marketing materials (business cards, letterhead)

\$100 Communications (second line for the home, answering machine, pager)

That's it, for the bare minimum.

Of course, there is insurance, and other equipment needs, but you may already have them. You should have a computer to do your paperwork on, write sales letters, etc. You will also need reliable transportation. More on these two in the next section,

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04-Intellectual Property

Contents

1. Copyright
2. Trademark
3. Domain

Any corrections or additions? Please let us know!

1. Copyright

Many craftspeople use copyrights to protect their work. What is involved? And more importantly, how much protection does a copyright offer the average crafter?

What types of things does a copyright protect? According to the U.S. Copyright Office, a copyright can be used to protect "original works of authorship that are fixed in a tangible form of expression". The categories are very broad and, yes, craft designs can be protected by a copyright.

What do you have to do to register a copyright? Actually, when the work is created, it is automatically copyrighted. That's right, all of your original pieces of work are automatically copyrighted without registering a copyright.

The main difference between a registered and an unregistered copyright lies in the amount of damages that you can claim.

Registering your craft idea copyright requires you to file it with the Library of Congress's Copyright Office, using form VA. The URL is <http://lcweb.loc.gov/copyright/>

Step 1

Make sure your work is a visual arts work. Visual arts are pictorial, graphic, or sculptural works, including 2-dimensional and 3- dimensional works of fine, graphic, and applied art. Here are examples of visual arts. "Useful articles" may have both copyrightable and noncopyrightable features (read details). Some architectural works also qualify as visual arts works. (read details).

Step 2

Put into one envelope or package

- a completed application Form VA

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- a \$30 payment to "Register of Copyrights."
- nonreturnable copy(ies) of the material to be registered. Read details on deposit requirements.

Step 3

Send the package to

Library of Congress
Copyright Office
101 Independence Avenue, S.E.
Washington, D.C. 20559-6000

Your registration becomes effective on the day that the Copyright Office receives your application in good order, payment, and copy(ies). If your application is in order, you will receive a certificate of registration in 4 to 5 months.

For more details, please see Circular 40, Copyright Registration for Works of the Visual Arts; Circular 40a, Deposit Requirements in Visual Arts Material; Circular 41, Copyright Claims in Architectural Works; Circular 44, Cartoons and Comic Strips and other informational circulars.

Once registered, how do you protect your copyright? A copyright itself does not automatically keep someone from stealing your designs any more than a law keeps crime from happening. You must be diligent to confront anyone who steals your copyrighted information - as not objecting and taking these steps may result in the courts ruling you've abandoned it. This means you must search for people who may be infringing, sending out warnings to them to cease and desist, and demanding (if you like) compensation.

Eventually, unless the infringer voluntarily quits and provides compensation to your satisfaction, it will require a lawsuit to protect your copyright.

You'll need to decide whether this effort and expense is worth it or not to you. Even if you don't anticipate it being worthwhile to sue, you should still print a copyright notice on every work, this may prevent what is called "innocent transgression" - they can't say they didn't know if there is a clear notice.

2. Trademark

A trademark is a word, name, symbol or device which is used in trade with goods to indicate the source of the goods and to distinguish them from the goods of others. A servicemark is the same as a trademark except that it identifies and distinguishes the source of a service rather than a product. The terms "trademark" and "mark" are commonly used to refer to both trademarks and servicemarks.

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To clarify, your company might be The Ajax Company, but you can also trademark the name of each of your product lines, such as PotScrubberz and BBQScrubberz. Think of General Mills, which is a company name and is registered as such, but each type of cereal they produce also has a name, which is trademarked.

Trademark rights may be used to prevent others from using a confusingly similar mark, but not to prevent others from making the same goods or from selling the same goods or services under a clearly different mark.

Trademarks which are used in interstate or foreign commerce may be registered with the Patent and Trademark Office.

Trademark rights arise from either (1) actual use of the mark, or (2) the filing of a proper application to register a mark in the Patent and Trademark Office (PTO). Federal registration is not required to establish rights in a mark, nor is it required to begin use of a mark. However, federal registration can secure benefits beyond the rights acquired by merely using a mark. For example, the owner of a federal registration is presumed to be the owner of the mark for the goods and services specified in the registration, and to be entitled to use the mark nationwide.

Unlike copyrights or patents, trademark rights can last indefinitely if the owner continues to use the mark to identify its goods or services. The term of a federal trademark registration is 10 years, with 10-year renewal terms. However, between the fifth and sixth year after the date of initial registration, the registrant must file an affidavit setting forth certain information to keep the registration alive. If no affidavit is filed, the registration is canceled.

Since there is no requirement that a trademark be registered, there is no 100% sure way to check if somebody else is using the same mark/brand. You can check the registered ones at <http://uspto.gov> - other than that you'll just have to start marketing it and see if somebody else comes forward with a claim to ownership of that particular trademark.

3. Domain

I'd recommend strongly that you also try to get a World Wide Web domain name registered that can help promote your tradename. Ideal is if you can get both the same - and if you have chosen a truly unique name for your business and tradenames, this might work for you.

There are many domain name registrars out there. I think the best (of course) is our own. We charge \$17.50 per year, not the absolute cheapest perhaps on the Internet but half the price of Verisign, and we provide much better service.

Check if a name is available at:
<http://bizshop.com/whois.htm>, then

Order securely at <https://www.bizshop.com/domain.htm>

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05-Pricing

Contents

1. General Considerations
2. Market Method of Pricing
3. Scientific Method of Pricing
4. Hybrid
5. Surcharges & Amendments
6. Price Sheets

Any corrections or additions? Please let us know!

1. General Considerations

Do what you love and the money will follow!

Ever hear that saying? It's wrong.

It should say "Do what you love and then drag the money in by the nose."

Your business might be fun, it might allow you to pursue your interests, but you won't be in it long if you don't make enough money!

The two most common mistakes made by entrepreneurs are

- Under-marketing
- Under-pricing

Put your effort into marketing, charge a sufficiently profitable price, and you are unstoppable.

2. Market Method of Pricing

The simplest way of determining prices is to spy on what the competition is charging. Call up several other craft artists, and see what they charge. Pretend to be a prospect looking for a gift item. There are also many craft artists selling what they have on the Internet, and most list their prices quite openly.

As you do this, you'll be trying to determine what the average price charged is. You'll find the high and the low rates, and then can figure for yourself an average.

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So where do you want to place yourself relative to that average? Some might be surprised, but you should always price yourself above average. There are several major reasons for this:

1. People equate price with quality. They really do. If you are one of the higher priced consultants, you must be good. If you are low priced, there must be a reason why you can't command higher fees. That's what goes through prospects' minds. It's the same reason why, if somebody asks you how business is going the only good answer is "fantastic!" People want to hire consultants who are obviously successful - nobody wants a loser.
2. If you are relatively highly priced, you have room for some concessions where you see fit. If you are already operating on a thin margin, you don't have any space to go down at all before you are operating at a loss.
3. Part of your reputation and success will be dependent on your image. You make more money, you can afford to look like you are successful. You'll be able to eat at better restaurants, drive a nicer car, pay admission prices for more prestigious social events - where you will meet people who are willing to pay high fees for a great gift basket. If on the other hand you can only afford cheap restaurants and almost-free social events, how many people at those are likely to pay a hefty fee? This is not a judgment call against poorer people, but realistically they may not be your best market.
4. People who pay more tend to be easier to work with. It is a true statement that the people who want to quibble about price are also those who will want to quibble about everything else you do. If they feel they are paying more than they can comfortably afford, they are anxious about their decision, and so constantly seek to find fault.
5. There is also a mercenary reason. If somebody is willing to pay you \$100 per hour, and you only charge them \$50 per hour, what are you really doing? You might as well take \$50 each and every hour you work and toss it out the window. If you can afford to do that, then I've got a better idea. Wrap up \$50 each hour and send it to 1713 E 3rd Street, Port Angeles WA 98362. You should always charge as much as the market can bear, or you are simply losing money.

3. Scientific Method of Pricing

The formula method of setting fees is more common and easier to understand. Get your pencil and paper ready, and you can substitute your own values for what we use.

Always the starting point should be how much money to you want to make. Let's assume for this example that you want to take home 50,000 dollars your per year in the business. That would certainly be a very do-able goal.

Next, decide whether you ought to work sold time or part time at your business. If you are going to work full time, that is 2,000 hours per year. We get 2,000 hours by assuming a 40 hour work week and a 50 week year (take

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two weeks' vacation-you deserve it). 50,000 dollars divided by 2,000 hours = \$25 per hour. This is your labor charge. Or you can look at it as the amount that you will draw from the business.

The next consideration is materials. This is what will be included in each individual craft item - and obviously this will vary. You'll need to do one of these pricing worksheets for each craft item you produce. Let's say this particular craft item costs \$25 in materials, and it takes one whole hour to make.

The sum of your labor and materials cost per hour is your "Base Rate," which in our example would be \$25 plus \$25 or \$50.

However, that isn't good enough yet. Overhead can be a very large percentage of expenses for your business. Overhead includes such things as marketing time, rent or mortgage, printing costs, electricity, etc.. At the end of the year, you will probably have receipts and a very good idea of what you spend, but initially a good rule of thumb is to take half of the total you got when you added your labor and overhead charges, and call that overhead. In our example, the total of labor and materials is still \$50, so our overhead will also be \$25.00.

Add the overhead to your labor and materials, and that is your MINIMUM price. For our example, it is \$75.00.

Now if you collected that, you would indeed be able to draw \$50,000. But that is your money, your "salary". Your business also needs to be making a profit over what it pays out in wages, so increase your base rate by a profit margin. How much profit margin is up to you, but perhaps 10-20%. Ours will be 10%, so let's add \$7.50 (10% of \$75) to give us \$82.50 per hour.

Consider what happens when you can make TWO items hour. Now you can divide your hourly rate by half, and still make the same amount of money. Or keep the hourly rate the same and make twice as much! The key is that the starting point for formula rate setting is how much money you want to make, and how many hours you want to put into it.

The other important thing to realize from your calculation that the biggest component of the price is usually labor - and most of us undervalue our time!

4. Hybrid

In reality, you'll want to do both methods - and then take the higher of the two.

5. Surcharges & Amendments

Early Bird

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These are often given a discount. You can decide how far in advance of the required delivery date will qualify for an 'early bird' discount. It makes sense to give these jobs a discount to encourage this early ordering - which allows you to plan your time and money more efficiently. Perhaps 10, 15 or even 20% off for such advance scheduling is in order.

Favorite Customer

I'd recommend you set up a 'club' for your customers, and that club members get a substantial discount on future orders. Club membership is automatic when they buy an item, and expires in a short period of time unless they buy again. This will greatly boost your repeat sales!

Rush Jobs

Rush jobs on the other hand can really disrupt things. What is a rush job? You get to decide that. In your marketing materials and/or on your price sheet, you'll state that orders placed with less than x number of days advance notice will be charged a rush fee of a certain amount.

Emergency

If they want it done RIGHT NOW!, then that is an 'emergency' surcharge. In this case, you'll have a major disruption to your schedule. For this, make the emergency surcharge quite high.

This will deter people from declaring everything an emergency. On the other hand, if something really is time critical, they won't mind paying whatever it takes to get the job done.

Delivery Charge

If you'll be delivering your craft items locally, you may want to charge a fee for that.

However, the time you spend delivering is time you can't be creating, so you want to always allow the possibility of outsourcing. Check with delivery companies and errand services locally and find out their rates to deliver a typical basket. Then on your rate sheet, charge that to your customers. If you want to do the delivery yourself, then the customer is making it worth your while - if you are busy or for whatever reason you don't want to drive it over, the cost of outsourcing it is built in.

Shipping and Handling Charge

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The same thing applies for orders you get where you'll be shipping the items. Take a typical item to a pack-and-ship place (such as the UPS Store or PostNet). Let them prepare a chart of what they would charge you for the packaging and mailing to various parts of the country. Add a dollar or two for your trouble, and quote this as your shipping and handling fee. Now if you want to outsource this, you can and won't incur any additional cost.

All of these surcharges should be clearly laid out on the rate card. Your customer can then decide if they want to spend the extra money for an 'emergency' delivery, or to have you go all the way across town. No surprises to your customers!!

6. Price Sheets

When people inquire about your products you'll need something to send them. I recommend you set up price sheets or sales sheets, which are really just flyers (preferably in color). It should clearly list prices. This helps people decide if they can afford you or not.

One psychological technique is to list no more than 3 items to a page - one very expensive, one middle of the road, and one very low-priced.

By having one very expensive, it automatically makes the middle priced item seem like a bargain.

Below that you have your middle priced item, and below that is the 'cheapie.'

The cheapie is deliberately a bit skimpy. It is priced low, so it also allows you to make sales to people who might not be able to afford your usual gift basket. The real reason it is on the page though is that in the gift field, nobody wants to be a 'cheap giver' and so most people will scan up to see the next higher thing that is still within their price tolerance. They'll see your middle item is a much better deal, even though it costs more.

So both high and low are designed to increase sales of the middle.

A psychological trick? Maybe, but when you get right down to it, ALL sales is psychology.

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06-Marketing

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2. Marketing Tips
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18. Get Thee A Webmaster

Any corrections or additions? Please let us know!

1. Marketing Importance

All this talk about pricing and income is great, if and only if you have the customers. In order to have the customers, you are going to have to market hard, market constantly and market effectively.

Crafts are not bought in todays market - they are sold!

This is more so for crafts than many other product types, since crafts are not usually considered necessities that people **MUST** buy. Crafts are bought largely on impulse, based on the marketing of the crafter.

This is why so many crafters get discouraged - they love making their craft but don't grasp that the **MARKETING** is just as important as, or even more important than, the **MAKING**.

What is marketing? It is anything you can do to make people aware of your craft items, and to present them as something desirable.

2. Marketing Tips

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First step is to figure out who your prospective customers are, and figure out what will appeal to them. What ways are best to reach that type of person? Only by studying your prospects will you be able to target your marketing effectively.

I strongly recommend that you buy and read *Guerrilla Marketing*, by Jay Conrad Levinson. It is simply the best small business marketing book written so far. Selling for about \$10 in paperback, it should be found in most bookstores. Remember as you do your marketing that much of what you are doing is education. Most people have never been exposed to what you do. Your job is to make them aware

Never pass up an opportunity to talk to people about your crafts. Investigate small business and community groups who might be looking for a guest speaker. If you are uncomfortable speaking to groups, join Toastmasters. It will be a wonderful boost to your career, no matter what career you finally end up in.

3. Three Secrets To Success

Specialize

Are you independently wealthy? It takes a lot of money to go after the entire market all at once. To reach everyone within a 50 mile radius would take tens or hundreds of thousands of dollars.

So instead, each marketing effort has to be aimed at a very specific target. Think of niches, small slices of the market, that you can specialize in and go forth and conquer that.

For instance, you might specialize in gift craft items for Realtors. Make a list of all the realty companies, and send them a mailing. Call on a few of them - the agent who has the 'floor' often is bored silly and would love to talk. What would they like to see in the gifts? Become an associate member of the Realtors Association so you can go to their meetings and events. Slant all your marketing towards this group. Once you have the Realtor market sewn up, you can go after the Dentists.

Just about any niche could be a specialty niche for crafts. What about crafts for computer geeks, crafts for cat lovers, crafts for the car?

Customize

Everything you do should come with your brand on it. You should have a consistent color scheme, a logo, something that instantly and visually is recognizable as yours.

Supersize

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People are tickled when they get something for free. Not something that was advertised as 'buy this and get this other for free' - we're smart enough to know that the second isn't free, it is just included in the price we paid. I mean really, unexpectedly, free.

Want customers who rave about you? Want customers who do most of your advertising for you? Then bribe them! Not a blatant, offensive bribe. What we are talking about here is the old concept of a baker's dozen. Give people a little more than they expected, and they are delighted. Come up with some small gift you can give people when they buy from you, or on a special day. Better yet a range of small gifts, so that nobody gets the same thing twice.

These gifts don't have to be expensive. A candy bar unexpectedly can be just as neat as anything else. You may very well end up with some extra inventory of 'goodies' that you were planning to use in one item or another but didn't, or that are extra because you had to buy in bulk. Use these as freebie gifts to your customers, 'just because'. It's much better than letting them go past their expiration date! Little fun items work well.

I'd recommend you stay away from imprinted products (the kind with your name and logo on them) - they aren't seen as neat gifts but only as advertising. These are super for advertising, but gifts should not be advertising.

Don't ever promote the fact that they get extra 'goodies' when they become your customers. Just make it an unexpected plus, and you'll get their tongues wagging spreading the good word about your business.

4. Networking

If you are going to be going after the business market, you need to become known by the business community. Where do you find business owners and leaders all gathered together in one place? At the Chamber of Commerce meetings and functions.

I think you NEED to join the Chamber. They give strong recommendations to others about member businesses - if you are not a member you might as well not exist, as far as any referrals from the Chamber go.

There are other organizations, such as the Elks, Rotary, Soroptimist, Toastmasters - all kinds of ways for you to get involved and get known.

In fact, I encourage you to go to church for the same reason. Do it for commercial purposes, to become known to the congregation as a good business to do business with. If something good happens as a result of one of the sermons, praise the Lord!

The bottom line though is that people do business with people that they know. The more you get out and let others know what it is that you do, the more business you will bring in.

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5. Post Cards

Perhaps the most powerful sense that we have is the sense of sight. Why not take full advantage of that in your marketing?

Take a photo of your wonderful work when you create a craft item. Take several shots, then get the film developed.

If one of the shots turns out well, turn the negatives right back in and order a large quantity of 4x6 reprints. They are very inexpensive if done in bulk.

4 inch by 6 inch is legal postcard size! All you really need to do is put a stamp on the back. Run it through your printer and print whatever message you want on the back, then use it in your marketing.

A lot of people sort their mail over the trash can, throwing away anything that looks like a commercial solicitation. I guarantee though that if you send an actual photograph in the mail, it will get looked at. Postcards cost less than an envelope mailing, and get much better readership.

The postcard you've created can also be used to put up on bulletin boards, to hand out to people in lieu of a business card, etc.

We list some folks in the Resources section that can sell you pre-printed postcards if you don't want to create your own or want to get started right away.

6. Sales Sheets

Another powerful weapon for you is going to be handbills or flyers. I recommend that you prepare a separate flyer for each of your specialties, rather than trying to fit everything into one three-fold brochure.

Flyers (I call them sales sheets) are cheap to produce and print, and you can revise them almost instantly and print a new batch. Another advantage is freshness.

If you give me a three-fold brochure telling me all about your products and services, I might look it over. Then it goes into the trash or into a file. If you send me the brochure again, I won't even look at it again. I've seen it already.

Flyers on the other hand can get much better readership. Send me a different flyer about other items you can provide, and I will probably look it over. It's new. By having a variety of flyers, you can keep hitting me with the benefits of using you. Educating me. Selling me.

List a main craft item for each flyer, and resist the temptation to crowd too many unrelated items onto a flyer.

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If you want, you can create the flyers rather simply on a colored paper, leaving a 4x6 spot on the sheet blank where you can stick one of your hard-working postcards. Now you have an eye-catching full color marketing piece, for very little.

Another advantage of the flyers, or sales sheets as I prefer to call them, is that you can gather additional business by using them. If I order your blue carved horse, you also provide me with a flyer about your red carved elk.

Every delivery, every thing that leaves your house in fact, should have a sales sheet or two. Send one to your mother in your letters. She'll show it to somebody. Put one in with your electricity bill when you pay it. Somebody on the other end is probably bored silly, but just might become a customer. They do it to you, don't they?

Anytime an envelope with a first class stamp leaves your house without the equivalent of four sheets of paper in it, you're wasting postage!

7. Hang Tags

The most important thing about your craft item is not the item itself, it is the tag that hangs from it!

If you try to sell crafts without literature to go along with it, you're going to be very disappointed with the results.

Each hang tag is a little mini-brochure or mini-booklet about this particular item. On the front is your logo and the name of the item. On the back is all of your contact information - company name, address, phone, fax, email, website info.

What is in the middle pages of this hang tag? Tell a story! This makes the craft item much more 'giveable' and increases the appreciation from both client and recipient. If you have a great story to tell about this item or one of its principal ingredients, tell it! If you don't have a great story about it, make one up!

I'm not telling you to be a liar - I'm telling you to be a 'myth-maker.' There never was a real Betty Crocker - yet hundreds of millions of Americans trusted Betty Crocker. She was a myth created by marketers.

I'm sorry for busting your myths, but there really aren't little Keebler elves making those cookies. Without the story of the elves though, it would just be another sack of cookies.

The more interesting and even fanciful the better - in fact a myth should be something that we know really isn't true, but we enjoy the tale nonetheless.

The hang tag makes the item much more of a collectible - and can allow you to both gain repeat sales and increase the price you can charge. The tag is so important!

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Think Beanie Baby®! The tag is so important to the value of the doll that they make special 'tag protectors' for them, and a Beanie Baby® with a tag is worth much more than one without.

8. Publicity

Your next weapon should be publicity. What is publicity? Free advertising, that is what. You have an unusual business, so there is a natural angle for the local media. You should try to get mention when you start your business. When you speak to a group. When you have done an unusual type of errand. When you get glowing testimonials. When the media is planning a focus on organization, or stress, or time, or self employment. Constantly be looking for ways to attract media attention.

The most common tool for getting media attention is a press release. Granted, the media get dozens or hundreds of them a day. But the more you send in that are well done, the more likely you are to plant a seed in the editor's mind that you could be a good story.

Writing a press release is not complicated. There is a standard, time-proven format.

On top of a blank page you write "For Immediate Release"

This flags it as a press release and also gives the media the flexibility to run the story when they wish.

Next, include all your contact information, in case the editor wants to assign somebody to do a more in-depth study or the editor wants to have some facts checked.

Then come up with a good strong headline - something to make the editor and the publication's readers want to read more.

First paragraph of the body, tell all the facts. Who, What, When, Where, Why, How

Second paragraph I like to put some 'human' element in. Something to make it more relevant and fun to read.

9. Broadcast

Don't neglect your radio friends. They are often looking for interesting local guests. Don't expect any payment, and don't expect the interview to be a commercial for your service. But you will get a chance to educate a lot of people, and perhaps have your phone number mentioned to boot. If you should ever decide to do any radio advertising, by the way, pick a talk station, not a music station. People listen TO talk radio, and AROUND music radio.

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One way though to get some 'free' radio time is to offer one of your craft items as a prize in one of the many contests the radio station runs. While the contest is running, the radio 'personality' talks up how wonderful this is, since they want people to be excited about entering. This is especially valuable if there is an outrageous or humorous angle to your craft.

As for TV, it is probably beyond the reach of most start-ups, except for ads on the local cable channels. You might want to investigate how much they charge.

10. Signage

Another way to advertise is to use your own assets. Like your van, car or truck. It is very inexpensive to get a sign placed on your vehicle. If you are worried about the paint job, you can get a magnetic sign (though if you don't take the magnetic sign off the fading around it will be obvious). The sign on your vehicle can be very effective. Think how much your vehicle will be seen around town if you are busy delivering crafts or running errands such as shopping for supplies, and realize that the sides of your vehicle are essentially portable billboards. This assumes of course that you are not a "nasty" driver that makes people mad!

11. Tie-ins

In the Guerrilla Marketing book, you'll see mention of guerrilla tie-ins. This is the old principle of "You scratch my back, I'll scratch yours." If you are going to be featuring somebody else's product as a component in yours, or the craft item fits the marketing image of another company, why not work together to promote both of your businesses!

Every business you work with can be approached for similar deals. Soon, your prospects will be seeing your name all over the place.

That's important, because studies have shown that the average prospect needs to see or hear your name and message nine times before they are ready to purchase. The more impressions you make, the more likely they are to be favorably inclined to your business.

12. Print Advertising

You'll need to advertise some, but I am not a big fan of newspaper display advertising. It is too expensive, and too uncertain.

Small classified ads will work just as well. The classified section is one of the most read parts of the paper - people browse through it over coffee or when relaxing. Display ads just tend to get glanced over. Besides, you can't afford to buy enough space to educate the public in a display ad. Your only objective must be to get them to ask for more information, and you can do that just as well in a classified ad.

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That ad will cost you a tiny fraction of a display ad, and will probably pull just as well. More importantly, you can afford to keep it or similar ads running issue after issue. Consistency is more important than the success of any one ad.

When somebody does respond, then you can send them a complete "big mail" that does a whole selling job. Classified ads are found not only in your regular paper, but also in the free "shopper" and "penny saver" type papers, and even in well-targeted magazines. If your target market is the affluent, look for city magazines, yachting magazines, and similar.

13. Postering

Don't neglect the tried and true methods of papering and postering. They are virtually no cost, but are often highly effective.

Postering is simply putting up your message wherever you can. Pin up your 4x6 postcards anywhere that is legal. Find a bulletin board, stick one up!

14. Papering

Papering means passing your sales sheets around like crazy. Stand on the corner and pass them out to passers-by. Better yet, every time you make a stop grab a handful and go up and down the shops and stores in the area. You aren't trying to sell them at this point, your only goal is to get a sales sheet into their hands. Walk in smiling, ask politely that the sheet be given to the owner and manager, and leave. You may find the response surprisingly good. It just takes a little 'gumption' to start doing it.

15. Customers Into Clients

It takes a lot of work to get a customer. It may even take some money. It seems pretty silly to let that customer go once you've got them. Yet that is what most businesses do in America.

Your goal should be to keep every customer, and turn them into long-term clients. Your goal should be to get them to use more and more of your services, to depend more and more upon you.

You do that by forming a relationship with them. In order to form a relationship, you need to know as much as you can about them.

We mentioned before the book *Swim With The Sharks Without Being Eaten Alive*, and the MacKay 66. How do you gather this information? Surely you won't hand somebody a 66 item questionnaire to fill out when you first meet.

What you do is observe. What does your customer like to talk about? Most private offices have an "I Love Me" wall where awards, certificates and pictures that the person values are hung. Even if they only have a desk, typically there is a corner with a picture of their kid or dog or something.

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All these tell you a lot about what the person values. Above all, listen to them. Most people are so delighted to have somebody really listen that they end up revealing much about themselves.

Once you have your information, of course you must use it to build relationships with that person and nothing else. Remember, confidentiality!

16. Your website

I can't imagine a professional these days without a website. It is the most cost-effective way of spreading the word far beyond those people that you come into contact with.

Nowadays, if somebody hears about your item or your business, the first thing they're going to do is try to check out your website. Most people are going to expect that you not only have a website, but a good one. You are, after all, a professional!

Other advantages of a website:

1. **Fastest Growing Medium in the World**
We are adding between four and eight million new webpages every day to the Internet. The number of users of the Internet is ballooning. Nothing above the microbe level has ever grown this fast before.
2. **Worldwide Marketing**
Expand your business out of your home town or city into the emerging global market place. You may not be able to make sense of the mail, phone and regulation systems in all your potential international markets, but with a Web page, you can open up a dialogue with international markets as easily as with the company across the street.
3. **The Internet as the Great Equalizer**
Only on the Internet can the entrepreneur compete head on with large Fortune 500 companies. You can implement things faster, provide better service, and have a better understanding of what your target market wants and needs.
4. **Increase your professionalism**
Your customers will be impressed with your 'forward looking' vision and feel more comfortable about doing business with yours. I can't imagine a consultant these days not having a website. How could you talk to clients about the need to change with the times?
5. **To Create a 24 Hour Service**
If you've ever remembered too late or too early to call the opposite coast, you know the hassle. We're not all on the same schedule. Business is worldwide but your office hours aren't. Trying to reach Asia or Europe is even more frustrating. But Web pages serve the client, customer and partner 24 hours a day, seven days a week. No

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overtime either. It can customize information to match needs and collect important information that will put you ahead of the competition, even before they get into the office.

6. To Stay In Contact On The Road

While you or your associates are on the road you may need up-to-the-minute information that will help them make the sale or pull together the deal. You don't need to carry everything with you - you can keep it posted in complete privacy on the World Wide Web.

7. To Heighten Public Interest

The Internet is a popular topic for the news media to cover. If you have great information on the site, articles in print or sound bites on the radio are perfect for increasing your reach to hundreds of thousands of new prospective clients.

8. Slash Printing Bills!

Designing, printing, and mailing brochures or catalogs is very expensive. Sometimes, information changes before it even gets off the press. Now you have a pile of expensive, worthless paper. Adding new products to it throughout the year is prohibitively expensive. Electronic publishing changes with your needs. No paper, no ink, no printer's bill.

9. Slash Postage Bills!

The Internet allows you to get your message to tens of thousands of interested people. You can modify your sales literature daily or hourly, you can send your message through email to thousands (if they've given their permission) absolutely FREE!

10. Allow Feedback From Customers

You pass out brochures, network, and advertise locally. But it doesn't work. No sales, no calls, no leads. What went wrong? Wrong color, wrong price, wrong market? Keep testing, the marketing books say, and you'll eventually find out went wrong. That's great for the big boys with deep pockets, but who's paying the bills? You are and you don't have the time nor the money to wait for the answer. With a Web page, you can ask for feedback and get it instantaneously with no extra cost. An instant email response can be built into Web pages and can get the answer while its fresh in your customers mind, without the cost and lack of response of business reply mail.

11. To Reach The Specialized Market

Many salespeople serve very specialized markets. The Internet is the single best way to reach special interest clients. People all over the world to searches for what they are interested in, and in fact the more specialized the more likely people are to find you. Or your competitors.

12. To Serve Your Local Market

We've talked about the power to reach the world with a Web page. How about your neighborhood? Considering the small cost of Internet marketing compared to traditional media, it simply doesn't make sense not to use it. There are certainly enough local people with Web access to make it worthwhile.

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Many people now use the Internet as a screening device. If I hear about your company, the first thing I'll do is try to locate your website and 'check you out'. No matter where you are, if your client has Web access, you should be there too.

13. Internet Users are Intelligent and Have Large Disposable Incomes
Study after study confirms that the people who use online services and the Internet have the most education and a large disposable income. Internet users are probably the highest mass market demographic available. Usually college educated or being college educated, making a high salary or soon to make a high salary, it's no wonder that so many high-end advertisers are pouring money into the Web.
14. Break Free of the Local Economy
When the market is not so hot locally, don't just watch your sales slow. Market over the Internet and reach those in other areas with money to buy your product or service, and a willingness to!
15. Do Your Research
There is no larger pool of knowledge and information. Use the Net to find suppliers, market data, articles, use it to compare prices, solicit bids, or ???
16. Competition is on the Internet
So you must keep up and not be left behind in the dust.
17. Because Your Competitor is NOT on the Internet
So this is an opportunity to jump ahead of the crowd and appear as a mover and shaker.
18. INCREASE SALES!!!
On the Internet, a majority of people visiting your Web page will have found it by specifically LOOKING for information about your product or service, making them much easier to sell to.

More sales are the best reason to be on the Internet!

BOTTOM LINE:

With the Internet virtually doubling every year and businesses of all sizes getting connected worldwide, companies can't afford not to be connected. Once you're connected you'll wonder how you ever ran your business without it! You'll be increasing revenue, drastically cutting expenses, and moving up to an entirely new profit level.

17. Creating a Professional Website

Some of what should be included in your website:

- Home page. This should convey in a snapshot what you do, and how you can help potential clients. It should be impressive but not pretentious.
- A personal page. Clients often want to know you as a person as well as a salesperson. They want to get a sense of you as a whole.

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- Localization page. Odds are you want to serve customers in a particular area. No sense in attracting clients in Mexico if you have no desire to do work there. If you are willing to work worldwide, great, tell potential clients what they need to know in terms of lead times, expenses expected, etc.
- Catalog section that allows anyone who comes to browse through all the items that you sell, and preferably place an order straight from your website.
- Successes page. If you've done something you're proud of, tell the world about it! Others may find it even more impressive.
- A testimonials page. We've talked before about testimonials - clients want to know that other people are happy with what you've done for them.
- Articles page. You're the guru, the fount of wisdom to your clients. Put articles that you've written on your website for people to read. Ideally they'll be searchable, and even more ideally they're credited with an actual print publication they've appeared in.
- Supporting links page. One of the ways of appearing more valuable to your clients and also avoiding the appearance of being self-centered is to have numerous links to other sites that have good information or resources in your field. Just don't put those links before you've had a chance to sell the visitor something.

These are of course just the basics. You might also think about some pages just full of fun information - it gives a people a reason to visit your site and to keep coming back.

18. Get Thee A Webmaster

Odds are, you're a busy person. The real difference between a successful website and a disappointing one is having someone take care of the site. This should be done every day. Ask yourself these two questions to decide whether the manager of your website should be you or an outsourced professional.

1 Do you have two or more extra hours (depending on skill and number of visitors) per day to spend taking care of your website? At least one hour a day should be devoted to promoting the site, and at least another hour responding to inquiries, fixing broken links, adding pages, refreshing content and all the other myriad website management tasks.

2 Do you have the knowledge? Some of the things you'll need to know include scripting, cascading style sheets and other design elements, web search engine placement techniques, and much more. Remember: somebody who knows what they are doing does any job in a tiny fraction of the time of somebody who has to learn as they go.

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One of the best ways to accomplish all those things and still retain your sanity is to outsource as much as possible to a professional webmaster service. Then you can concentrate on what you do best.

Biz\$hop is one of the premier independent Webmaster Service Providers. We offer a wide range of services, at very reasonable rates. Whether you choose our service or another Webmaster Service Provider, it helps to have a good idea what to expect and what to ask.

What does a Webmaster do?

Everything that needs to be done on a site, either as needed or on a regular routine basis. These include, but are certainly not limited to:

- Design site, or redesign as needed
- Update content with fresh new pages
- Register site in search engines and reregister periodically
- Tweak and resubmit for better search engine placement
- Participate in newsgroups on behalf of client
- Adjust features on site as per client desires
- Manage database and 'back-end' functions
- Monitor site for uptime/loadtime problems and fix as needed
- Spell check and grammar check all pages
- Solicit and manage links incoming and outgoing
- Solicit and manage paid advertisements
- Search for similar demographic sites with which to promote
- Manage mailing list of visitors to site
- Prepare and ship email newsletters
- Stay abreast of new Internet techniques and technologies that might affect the site.
- Provide meaningful statistical and other reports on the site
- And much, much more

BizShop practically invented the Webmaster Service as an independent business service, and remains the premier webmaster service company. Please contact us if you'd like our services for your website. Email us at bizshop@bizshop.com

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07-Sales

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Any corrections or additions? Please let us know!

1. Selling on Consignment

Consignments works like this:

You convince a shop owner to allow you to put your merchandise in the shop - at no risk or cost to the shop owner - and you get paid if and only if the item sells. Oh yeah, and the shop gets to a large portion for themselves.

It's certainly not the most preferred arrangement, but it can be very profitable for all concerned (most importantly you).

The average split seems to be 40% to the shop, and 60% to you. Out of your percentage of course has to come all the expenses of materials, etc.

So why do people do consignment?

Simply put, it's the only way to break into most shops. You are an unknown to the shopowner, they don't know whether your items will sell or not, and they like everyone else have limited budgets. While they might not be interested in spending that budget to buy your items upfront, they may be very willing to give it a try on a consignment basis.

It also allows you to get into shops that would never have considered craft items of any kind before. How about putting doggie craft items in pet stores? Auto enthusiast craft items in auto parts stores? Particularly if you can use the shop's products in the craft items, this can be an attractive and lucrative deal for both of you.

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The craft items won't sell themselves sitting in your studio. The more people see your craft items around, the more familiar your name will become to them, the more likely they are to buy.

The actual terms of the agreement is something to be worked out between you and the store, so the percentages, etc can vary widely.

2. Selling Wholesale

Eventually you want to break out of the uncertainty of consignment income and actually get stores to buy your craft items outright. This is going to require you to actually go into the stores and convince them that carrying your craft items will make them money.

For this reason, if you are putting things out on consignment now, record the date the craft item went into the consignment shop and the date it sold. What you are looking for is evidence that your craft items do sell well, so the shorter the turnaround time the better.

If you don't want to go from store to store selling on your own, you can get a Manufacturer's Representative (a professional independent salesperson) to sell for you, or find someone on your own who would be good at it. They are paid on straight commission (probably around 15%) so the more they sell, the more they make.

To find a rep, there are four ways:

- You can ask at whatever type establishment you think should be selling your craft items. Ask them who is the best salesperson selling to them - in most cases you'll get a name and phone number.
- You can contact the Manufacturers Agent National Association (MANA).
- You can meet them at the gift shows or other trade shows. Oftentimes they'll be listed in the program directory, or may have a booth set up.
- Reps interested in lines (products) in a particular field often advertise in the trade publications.

If you want to be in the larger stores like Nordstroms or any chain, you will probably have to talk to the regional buyer for whichever department you are trying to get into. Have your presentation very well prepared - even more than the local small stores they are going to want to see that the product sells.

Generally when you sell through retailers, the retailer will pay you 50-60% of what they expect to finally sell it at. It's up to you to propose a wholesale price, given your costs and profits, what the store sells it at is up to them. You can suggest a retail price, but that is only a suggestion.

3. Selling on the Internet

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The Internet has proven to be a huge business enabler, especially for the small business. It means you are no longer confined to your local area for customers, but can literally sell around the world.

To do this, you'll need to get a great website done up. You can do it yourself, and there is software that is making it increasingly easy to do. You can also hire a junior high school kid for a couple pizzas who can put a site together for you.

You could of course hire a professional as well. There are advantages - the professional should know all about search engine placement and how to create a site that will be a boost to your profits rather than a drag on them.

We already talked about the Internet and your own website in the Marketing chapter. In terms of facilitating sales, the most important things to keep in mind are speed - people won't buy from a slow loading page (if they ever wait around to see it) and how easy the shopping cart is to use and modify.

4. Selling To Stores

For craft sales, the direct approach is the fastest way to get your work into stores or galleries. Often called cold-calling, it strikes fear in the heart of most crafters. Still, it is something you are going to have to master if you want to be successful selling to the retail outlets. The same holds true even for approaching consignment shops. The only alternative is to use sales reps to do the selling for you - but one way or another, the store owners need to be approached.

Most of us aren't comfortable 'cold-calling' whether that is calling on a shop to get them to carry your product or a corporate decision maker.

One way of not being immediately given the cold shoulder when you go into a place to sell is NOT to do it the first time. The first time you stop into a place, simply engage the owner or manager in light conversation. Let them get to know you and like you first.

The next time you come in, you can give them the old "Oh, by the way, I've got something I'd like to show you" routine - at least now you aren't just a stranger coming in off the street trying to push another sale.

You can also make a one way appointment. Send a postcard to the prospective customer in advance, preferably with a great photo on it, and let them know they can call you immediately if they want to talk now, if not you'll be in 'on the afternoon of the 26th'. Now when you do show up you are expected. Maybe not welcome yet, but expected! In the meantime of course, the product image has been in their subconscious and they are much more likely to purchase.

Some people do well trying to make appointments in advance by phone - but others (including me) have found that it is all too easy for prospects to say "No" on the phone.

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Never walk in with your pieces - unless you are wearing something - because it doesn't show respect for the store manager's time (and you'll do a lot of unnecessary hauling).

Unless you have a specific appointment, avoid approaching stores on a Monday, Friday, or weekend. The best times are mornings in the middle of the week. Store owners are too busy or too tired in the afternoon, and they are often gone on weekends. The bigger the shop, the more likely they will want to make an appointment for another day. Stay flexible enough to work with their time frame. Never attempt to push your schedule on them.

I've had great success by giving the shopkeeper control of the time. Simply hand them your watch or a clock, and tell them with a smile "I just need 5 minutes - you can throw me out at the end of that." Almost everyone will allow you five minutes - and I've not been thrown out yet.

If you make clothing, jewelry, or accessories, wear something you've made. People love to see the items in use, and it shows how much you believe in your products.

Don't be late or early. If you don't show up on time, what will they imagine about delivery of your products? If you get there before they're ready for you, you will likely cause irritation.

Before leaving home, check over your sample pieces for dust, cracks, open seams, scratches, wrinkles, and the presence of labels. Carry a small tool kit for repairing minor damages. Nothing could be more sales-killing than having the shopowner pick an item up and have a piece fall off.

Bring plenty of your printed material. Have your price lists, brochures, and business cards ready to give out. It helps a lot to have charts of shipping methods, prepared sales orders, etc. You also will need photos of any work you are not physically bringing in.

Don't haul everything in a banana box. Find or make an attractive presentation case for your work. Be proud of it. You are making a sales presentation when you go in, not moving things in your garage.

Build a relationship with the owner

Personalizing the relationship with the owner is an important part of building a wholesale business. It creates a comfortable feeling on both sides. It also helps when it comes to getting paid. If you have a positive rapport with an owner, they'll be more prompt with payment of invoices.

Follow-up is critical - make sure you send a thank-you note (whether or not the store bought from you this time). Put them on your newsletter list where you'll be announcing new products, and be sure to let them know in the newsletter of the successes other shops have found with your work.

You can locate stores that might carry your merchandise in a number of ways:

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- Ask at local crafts supplies shops -- often there are local directories that you might not otherwise know about.
- The Yellow Pages looking not only in the craft category but also at consignment, gift, jewelry, clothing, and any other category that might be applicable.
- Crafts Report Magazine has a "Crafts Wanted" section where stores buying craft items list what they're looking for and the average price range
- Mailing list brokers can provide lists of craft shops and other category retail outlets.
- Ask at the local Chamber visitor center - they often know of outlets that are hidden -- for instance there might be a restaurant with a gift counter that your items might fit well in.
- Trade shows are the ultimate way to find stores -- though expensive for exhibiting, there's no faster way to expand rapidly into many different stores.

More and more stores are selling craft items, reflecting the growing interest in homemade.

Be prepared - you don't want to get an order for 1000 pieces when you can only produce 10 a month. Here a few other tips:

- Have a sufficient variety of work to produce an effective display
- Design and develop an attractive way to show your work
- Produce a professional looking catalog and order form for buyers to keep.
- Know how much work you can produce in a given amount of time
- Have a system for scheduling work, so you can meet your delivery commitments.
- Make sure your wholesale prices the reasonable profit (in addition to booth fees, consider travel, food and lodging expenses, packing, lost production time, cost of the display system, etc.).
- Have a range of prices that people can buy a various price levels.
- Provide brochures or sale sheets for customers who haven't decided to buy. Make those available in such a way as not to cause litter in the store (an attractive dispenser box, etc.).

5. Cold Calling by Donna Pomana

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-----Are you
daunted at the prospect of drumming up new business? Do you get
cold feet when it comes to cold calling? Donna Pomana's savvy
advice could be just what you need!

A cold call is either a face to face sales call or a telephone sales call
of which the recipient of this call has no idea you are approaching
them to promote your product or service. Not necessarily an activity
we relish either as a business owner or as a sales person.

One of the Verve Sales Consultants is what I would consider to be
an 'expert' cold caller. Read on to find out what Bruce Cook has to
say about this age old tradition.

Don't be blinded by recognized sales techniques. Yes, sure they have
value and are a great starting point for new people in the market, but
sticking to them religiously may hinder your future sales success.

Earlier this year I introduced a completely unknown product to the
NZ retail market. Initially I tried the recognized professional sales
technique of phoning first for an appointment. Results were
disappointing to say the least, as I had most decline once they heard
me mention the type of product - sales for this product had declined
rapidly and retailers didn't want to see 'just another version of the
same old thing!

A new approach had to be adopted, so I plucked up the courage and
called cold on each retailer. My product had a great advantage in
that it was novel to look at and was easy to transport directly onto
the shop floor. Once in the shop, I asked to see the Manager who
was promptly asked if he would like to try out my product. The only
time I was not successful in seeing the manager was if he was
physically not on the property. Even manager's with 'no sales reps
on a Friday' rule, saw me and being the novel product it was it
turned staff and customers heads alike.

So in this case, I had the technique that allowed me to create a lot of
interest and also meant I could proceed with my sales spiel. This
was the 'in' I needed and sales began to happen.

The valuable lessons I have learnt:

There are no hard and fast rules. There are general rules that will
help you learn the ropes. Take them on as basic principles but don't
LIVE by them.

Be flexible. Change your approach, style and/or sales spiel at
different times to see if you can vary results.

Keep records of all your calls. Positive, negative and neutral
responses. This can be your measure of what works.

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Be innovative. Today's market is very competitive, margins are slim and your clients have a better understanding of sales approaches and techniques. An innovative idea or a strange new style may be just what you need to stand tall above your competitors.

And most importantly - never discount the value of a cold call. At the right time, in the right place and with a willingness to try different approaches and styles could well produce the results you have been looking for.

So be confident. Take the knock backs on the chin and fly high with your successes!

Donna Pomana, Director of Verve, leads a team of enthusiastic, successful people dedicated to ensuring clients achieve optimal profit through sales activity. Verve offers services such as Sales Team Leadership - leading your team of sales representatives to reach your goals and targets, providing fully trained Sales Personnel on short or long term contract basis, Sales Training and writing Sales & Marketing Plans. For more information phone 09 298 3326 or 025 628 8529; or fax: 09 298 3422

6. Selling "To Order" Crafts

For some crafters, this is the most enjoyable way to sell. You take orders using a sample, but customize each craft item to what the purchaser wants. Custom work can be as simple as stamping the buyer's initials into the piece, or as complex as custom doing every single step to match what they'd like.

In this way, they can have something very special, and you get to schedule your work for AFTER the sale instead of beforehand. You won't feel like you're a mini-factory, churning out many identical items, but more of an artisan. You get to see the look of delight on the client's face in many cases as they get just what they want.

On the other hand, it plays havoc with trying to keep any sort of reliable inventory on hand. Since many suppliers require a minimum purchase, if you are not careful you can end up with a lot of inventory you don't really want or need. Your costs will be higher as you find yourself buying more things at the retail level. You also have to deal with people, and some of them almost deserve the label "customer from hell." If somebody cancels a custom order, it can be disastrous (hint - for custom orders always get paid up front and make sure the customer knows the sale is non-refundable unless defective.)

You can blend production and custom work by creating a basic product, and then modifying it slightly for each customer. For example, you could add a company logo to an item and sell it to the

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company for use as an incentive or gift. This tends to eliminate most of the downside of custom orders and allows for much larger quantities than you would get in pure custom craft orders.

7. Selling by Mail Order

If you can find a particular mailing list and can create a craft item that serves that list well, you may be able to sell a huge number of craft items to that list.

For instance, you go to a list broker and get a list of AKC registered Dachshund dog owners. You then create a Dachshund lover's craft item, and a great letter selling it. Mail that out to the Dachshund list and you're very likely to strike a chord. The better the letter and the more tightly focused the list, the better your sales.

Mailing list brokers can be found in the yellow pages in most cities, and charge depending on how many names/addresses are on the list.

Prices start at around \$65 per thousand names. You'll usually need to rent a minimum of 1000 (sometimes 3000).

8. Selling through Affiliates

You can get others to sell for you. If you create craft items aimed towards a specific type of person, is there an association that those people might belong to? Perhaps you can work out a deal where they will sell the product to their members, through their newsletter or trade show, and leave the production to you.

Think Girl Scout Cookies, and you get the idea of what can happen if you are willing to let others sell your craft items as their own.

The same thing can be done if you find websites or other companies serving a niche market - see if you can't work out some kind of deal where you'll both have a good chance to make money

9. Selling to Companies

Don't ignore the corporate market.

The two easiest ways to sell to this market is through networking (getting to know the business owners at business association meetings, etc) and direct solicitation.

The networking side should be fairly easy - join the Chamber, any local business associations, and ask the President or Executive Director how you can best let members know about what you do.

Make a 'target list' of up to 100 businesses to go after as clients. The exact number will depend on your finances, time and courage ;-)

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You can compile this list from the local phone book, your own observations, Chamber membership lists, etc.

Send out a mailing to every one of the businesses in the beginning introducing yourself and your craft items. Explain how craft items can help customers feel appreciated and thus bring in repeat and referral business.

Then send out a postcard or another mailing monthly. I'd address the mailing to the highest person I could in a company - if they don't want to handle it they'll delegate it down.

There is a good book to read called Selling To VITO - which stands for Very Important Top Officer. It covers how to reach the real decision makers, and how to best to appeal to them.

Follow up with personal sales calls - most businesses need to be called on before they will make a deal. Divide up your list into days - if you are going to go after 100 business and can make just 2 personal calls per day, you'll get through your list in 50 days - 10 weeks if you take weekends off. Then you can start again!

Don't be a pest about it, but every month every company gets some kind of contact from you. Persistence is often what makes the difference.

10. Fairs and Festival Selling

Arts and Crafts Shows can be one of the best marketing tools available to artisans. The show provides you with a direct selling access to the purchasing customer. Show costs vary widely depending upon region, the attendance records, and advertising support provided.

Bazaar/Flea Market: This type of show is usually sponsored by churches, schools, clubs or organizations as a fund raiser for their group. Included with this group are open air markets, antique-craft shows and theme events like car shows, bake sales, sporting events, air shows, etc.. While the cost to enter is usually very low, the return in sales is usually not worth the 2 or 3 days of your time. Our survey has found this type of show usually attracts more browsers than buyers. The merchandise offered that does sell is usually low-end, from \$1.00 to \$15.00. Unless this is the type of merchandise you specialize in, or it is a special holiday show with a good reputation, you can usually spend your time and money on more profitable shows than these. This is a forum for the hobby/craft seller who makes a few things all year and wants to sell some items to support their hobby or group. Another thing to consider is that whenever "flea market" is attached to the name of the event, the customer it attracts is usually the bargain hunter looking for the "super low-low price" and not a serious art or craft buyer.

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Festivals and Fairs: This type of show is usually sponsored by civic groups, merchant or neighborhood associations, or towns/cities, etc.. The show is usually put on by a professional promoter and is well organized, well advertised and well attended. The deciding factor here is to understand the content of the event. If it is advertised as an arts & craft show be sure that your presence will be a dominate factor in promoting the show. Make sure that the arts & crafts are mixed well with the entertainment and food, not isolated into a remote area. If that happens you will not benefit from the mainstream of traffic attending the event.. Attendance is usually good. Many of these shows have a solid reputation for many years. Our survey finds that arts and crafts do well at these events as long as the show promotion features arts & crafts. On average the best selling price is up to \$50. Selling prices vary depending on the region of the country and rural versus city. Develop a competitive price range for your merchandise based on your target market and selling area.

Arts & Craft Shows: Here we will lump all organized professionally produced shows that are for the specific purpose of promoting the sales of handcrafted art or craft items. The show can be inside/outside, at convention centers or shopping malls, or buildings, etc.. They are usually broken into categories by type; Fine Art; Fine Craft; Traditional Art & Craft. Some shows allow a mix of fine and traditional, while others have specific definitions of what they allow. This is usually determined by their application information and jury process. Here I also want to note wholesale trade shows. A wholesale show will provide you with access to buyers for retail outlets for your work, if you are interested in expanding into the wholesale market. The key here is to choose a show that attracts the type of customer most likely to buy your type of work. If you do a country theme, then a show that caters to an up-scale modern trendy crowd probably won't work for you or vice versa. If you are not sure about the show, talk with the promoter and other vendors to find out more about the make-up of the show, and best of all visit the show and check it out.

These are a few things you want to know: number of years running; average attendance, and last year's ; how many vendors within each category are allowed (jewelry, wood, fiber, paintings etc.); customer parking; customer admission fees; is it handcrafted only or do they allow imported/or commercially produced items?; size of space provided; extra costs like electric, door prizes or special uniform booth requirements; set-up and break-down arrangements &/or costs. Some convention centers charge for transporting your display to your booth site. The organized art or craft show is usually the best place to start with when you decide to sell your handcrafted work. Don't decide based on just entry fees. Select shows that are closely aligned with your type of merchandise and your target customer.

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Selling At Art And Craft Shows

Courtesy of the National Craft Association

Selling at art and craft shows has many benefits, especially for a business that operates out of the home. It gives you a opportunity to sell directly to the customer, obtain customer feedback, a direct way to test new products, new colors, new ideas, and a variety of selling locations either locally or out-of town.

Select a show that is compatible with the type of merchandise you plan to sell. Find out what type of customer a particular show usually attracts, average age group, income, city, suburban, rural, singles, or families. Is the show a particular theme like country or modern art. Ask the promoter or check with vendors that do the show, or visit the show whenever possible.

Select a show that is sponsored by a reputable group or professional promoter. This way you will usually find a well organized, well advertised show that brings in reasonably good crowd.

Be prepared to apply for the show. Request a show application, comply with all the requirements and most of all have excellent photos or slides of your work ready to send with the application. Your photo is the only thing that actually presents your product to the jury committee. If it is not good, this will greatly reduce your chances of getting into the shows you really want. Send exactly the number of photos they ask for and close-ups or booth shots when needed. Make sure you order electric if you need it. Apply early. Good shows fill up fast, and many have waiting lists.

Prepare for the show you are accepted into. Check the attendance average for prior years and last year, so you can plan to have enough items to sell to justify doing the show

Plan ahead. Can you do the show alone or do you need someone with you to set-up, break down, or "cover" for you during any necessary breaks or to help with rush hour crowds.

Does the show provide selling tables and/or chairs, or do you have to provide all your own display set-ups and materials. Some shows offer both, you can rent tables or bring your own displays. If you have done your homework on setting up your new business by now you have attended many shows and have a pretty good idea what you need to display your merchandise. You can buy or make your displays. Keep in mind they must be portable, and easy to transport

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in the vehicle you have along with the inventory you need for the show. If you plan to do outside shows, a tent or canopy is a must for shade from the sun or a sudden rain storm.

Have you established all your selling policies and procedures. What if a buyer approaches you that wants to buy wholesale, or place your work on consignment in their shop or gallery. Will you offer special order? What is your return policy? Do you want to take orders for custom designed work?

What form of payment will you accept: Cash, check, credit cards? You can increase your selling options by offering to accept checks and credit cards. There are companies that offer check guarantee service and credit card processing to home businesses.

How will you keep track of sales and expenses for each show? Most artisans use a duplicate sales receipt pad or a form they have created that provides specific information they need to keep track of sales and inventory.

What about a money box or portable cash register? Most use a cash box available at any office products store. Start with at least 1 roll each of quarters, dimes, nickels, and pennies, plus at least 25 singles & 5 five's for \$50 or a larger show, 25 singles, 7 five's and 4 ten's for a \$100 start cash.

Are your printed hand-outs ready? Always have a business card, brochure, price list or show schedule ready to use as a bag stuffer or a hand-out to potential customers, This often leads to future sales after the show. This is especially important when you main marketing is in craft shows at different locations every week., people need to know how to contact you other than at a show.

© 1999 NCA the National Craft Association

How to Succeed at Craft Fairs

Craft shows are a good starting point for anyone selling their work. Beyond the dates of the show, there are no further commitments. When a show is over, it's over.

You can do one or two events and walk away with a minimum of expense of time and money or you can do shows every month and take up the craft fair life-style, making it the mainstay of your business.

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In an art and crafts fair, you have your own scaled-down model of a retail store, even if it's only for two or three days. You can use a show to test new products, designs, price changes and booth displays. You are directly in touch with the marketplace, so if your work isn't selling, you will find out why immediately from customers' reactions and sales results.

In selling direct to the public, you keep the entire amount of the sales, minus expenses. Since almost all shows are held on weekends, your week is free to create more pieces. You have control of your time. It's a great feeling to go to a movie in the middle of the week when everyone else is laboring under canned air, moronic managers, and minimal wages.

How to find shows

There are several resources that list art and craft shows around the country and give information about show performance in previous years. If you buy these guides, and you should, get the most current editions available.

Show performance changes over the years due to causes you have no other way of knowing about. Some shows simply fold up and disappear. Compare different reviews for the same show. If the reports are similar among various guides, then you can consider them good bets.

The Appendix of The Basic Guide to Selling Arts & Crafts lists almost all of the major crafts fair guides. The cost of owning so many different resources may seem expensive, but you can make back or save hundreds of dollars more than the cost of these books by selecting or avoiding a show because of what you learn from them. Avoiding the bad shows is worth the price alone.

In addition to show guides in print, announcements of events can be found online at:

Arts Crafts Show Business - Magazine and website for the craft artisan who sells. Includes show listings, articles, links and more:
[http:// www.ArtsCraftsShowBusiness.com](http://www.ArtsCraftsShowBusiness.com)

The Crafts Report - Online version of print magazine discussing all aspects of crafts business.

SAC News Monthly - Articles on craft business and promotions and reviews of craft shows: <http://www.SACNewsmonthly.com>

Sunshine Artist - Online version of print magazine discussing art and crafts business. Also links to craft show locators. <http://www.sunshineartist.com>

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Another source of art and craft shows will be your state arts council. They should be listed in the government pages of your phone book. I

How to start doing shows

Do your first show close to home, within one hundred miles. There are two good reasons; lower gas and mileage expenses, and less stress. A shorter drive and a longer night's sleep give you more energy for the show. Shows can be both exciting and demanding. Hundreds, possibly thousands, of potential customers come by your booth, many of whom will look at your work and talk to you.

If at all possible, visit a show beforehand to see if it attracts the right crowd for what you're selling. If you can't go in person, ask a friend that lives nearby to go. If that's not possible you'll have to rely on word-of-mouth information from other crafts persons and reviews found in the craft show guides.

Which shows should you be in

When selecting shows, choose the kind of event that will attract buyers of the products you make. There are several different kinds.

For example there are fine arts shows which may or may not allow craft items. Another kind of show is the juried art and crafts fairs. There are events sometimes referred to as country craft shows.

Crafts are also sold at a variety of other events such as state and county fairs, mall shows, renaissance fairs and large trade shows. Trade shows for crafts are discussed in another article.

Fine art shows feature paintings, photos, posters, prints, sculpture, and other fine art. Often fine art shows are found in combination with the better craft fairs in order to draw larger crowds.

Juried art and craft shows are often the most lucrative market for the craftsperson. Because the event is juried, the crafts displayed tend to be better quality and higher priced. A juried show is one where slides or actual pieces of your work are judged by a jury committee who selects the best from hundreds of applicants. All of the finer art and craft events are juried to screen out mass made products from kits and imported items.

Country craft shows are distinctly different from the juried art and craft shows. Their main criteria for entry is that you aren't selling assembled kits or imported products. The crafts exhibited are usually for the home, usually selling from \$2 to \$50. These shows often work well for small inexpensive gift items. I have tried them with high-priced crafts (\$150 to \$200 range) and did not do well. When selling higher priced items, choose the more established, juried art and craft shows.

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Renaissance fairs are outdoor events that include craft booths as a part of a total entertainment package. All the vendors dress in medieval costume and booths have the same theme. A variety of food, drink, jugglers, jousters, knights, and fair maidens abound at these festivals. Renaissance shows are listed in Renaissance Shopper Magazine, P.O. Box 422, Riverside, CA 92502.

Mall shows are listed in craft show guides and periodicals. They are usually produced by the mall management, a show promoter, or a local organization. These shows are usually part of a tour sponsored by a producer putting on events in one or several nearby states. Many exhibitors follow the circuit for several weeks, especially in the fall and pre-Christmas months. Mall shows may be an option for otherwise empty weekends. Mall shows might help, too, in slow months like January and February.

Other special interest shows

Some possibilities for special interest markets for your craft products include, but aren't limited to:

Local fashion shows. Women's groups and charity organizations often produce fashion shows for original work. Call your chamber of commerce and check the library for listings of associations in your area. Visit the large hotels and convention centers and speak with their public relations person. They have schedules of upcoming shows and producers to get in touch with.

Home shows and boat shows. Many major cities have a home show and a boat show at least once a year. Look for announcements in your newspaper.

Gift shows. Gift shows exist for both consumers and store buyers, usually held in large convention centers.

Flea markets. In some cities, flea markets have grown to include smaller, inexpensive craftwork. Booth rental is not as high as craft shows and they draw big crowds. Check them out, though, before you sign up, because almost all flea markets are full of garage sale items. Around Christmas time, however, smaller priced craft pieces like ornaments and toys may do well.

What to learn before applying

Before you apply to a show, visit it yourself, read what the show guides say about it, and talk to other crafts persons who have done the event. Here's a list of things you need to find out.

How many booth spaces are being rented for the whole show? A show with 500 booths will draw bigger crowds than a show with only 50.

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Is the show outdoors or inside? Has weather affected previous attendance?

Is the show well known? Does the promoter advertise in the newspapers, on radio, billboards or TV?

What are the security arrangements? Many outdoor events have no effective way of guarding your merchandise. Unless you secure your booth from possible entry, you should count on packing up and taking your goods at the end of each day of the show.

What kinds of crafts are exhibited? Is this the kind of show that attracts buyers for your craft?

Applying for shows

Applications for shows will be mailed upon request from the show producers. Once you are on their mailing list, you will probably continue to receive applications for a few years. Many applications are due three to six months before the actual show date.

Better shows are juried. This means that the artist must submit slides or photos of their recent work and possibly a photo of their booth display to the show producer, along with a jury fee.

There is no guarantee that you will be accepted into a show with your first application. Shows you do once, though, will often give you preference for reentry.

More tips for crafts fairs

Create a mailing list of your customers' names and addresses whenever someone makes a purchase or inquiry, enter their name on the list. When returning to the same city later, mail them a postcard with details of the show's date and if you know it, your booth location. You will find regular customers collecting your new pieces every year.

Be prepared to wrap up the sale as soon as possible. At craft shows, the more time you spend with one customer, the easier it is for another one to walk away. Have bags handy to put the purchased item in.

You will need a small space on a table to carry out the transactions. This will be where the customer can comfortably write a check or sign a credit card sales slip. Keep extra pens around. They inevitably disappear.

Keep a receipt book for customers requesting one. By writing a receipt for every sale, you have a physical record and a copy to give to the customer. Also, legally you must give a receipt for each sale.

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Have a supply of brochures or flyers about you and your craft to give with each sale or inquiry.

Bring extra ones, fives, and tens for making change. Keep your money in a belt concealed under your clothing. Never show large amounts of cash at the shows or motels you stay at when traveling. In larger cities, be extra careful when leaving the show to hide your money. Have a list of your credit card numbers at home or kept safe when traveling in the event you lose them.

Bring a lunch. The fewer times you leave your booth, the better chance of making sales. If you have someone to help you, it's easier to take breaks.

It helps if a friend or spouse can assist you. Setting up the booth and handling sales go more easily with two persons, but be careful not to impede the flow of traffic into your selling space. At some point, you will want to take a break, or walk around and see the other booths; this is impractical unless you have a partner.

Get a toolbox to keep emergency tools and supplies like scissors, electrical and duct tape, hammer, nails, pliers, screwdrivers, string or flexible wire, and spare parts for fixtures or booths. Keep a small box with needle, thread, crochet hook, and scissors for unexpected snags or just discovered mistakes. Include it in your toolbox.

For indoor shows, bring long extension cords, power strips, and clamp-on lights with bulbs. The better your lighting, the more you will sell. Most exhibit centers do not provide adequate light for good displays.

Make a checklist of the above items and go over it before you leave for the show.

11. Selling in Booths

One of the most effective ways to sell direct to the consumer is to sell in a booth. It's also a very effective way to reach the corporate buyer if your booth is in a convention exhibit floor or trade show.

Crafts often have a tremendous advantage over many other types of products and services because our products are so eye-catching. With a well-attended event, you can be catching the eye of thousands of buyers a day.

Contact the organizer of the event you'd like to be in and find out all the details - cost, size of the booth, what is provided, whether your info will be included in the program or other literature, electricity if you need it, policies, etc.

When setting up your booth, you want to avoid the number one mistake I see people make.

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Most folks set up a table at the front of their booth, put their items on the table, and then sit in back of the table - sometimes even reading a book or eating their lunch!

When you set up this way, you are putting up a 'wall' between you and your customers.

Get rid of the table, and put up some shelving around the edges of the booth in an 'L' or 'U' shape, leaving the front open. My recommendation is to use the lightweight but very strong shelves sold as garage storage shelves - very easy to carry and set up.

The purpose is to get people INTO your booth, and encourage them to linger. The longer they linger, the more likely they are to buy. Next time you are in the mall, note how many stores you see that have a clock on the wall. The only ones you'll find are the clock shops, and they usually have the time set to the wrong time - on purpose. Nobody wants you to know how long you've spent there, or that you really should be getting going to someplace else.

Engage all the senses:

- Sense of Sight - Beside the natural eye-catching ability of your products, I recommend you think about ways to attract attention visually.

Next time you are working at your workbench, set up a video camera showing your hands working on a project. Then you can play that in your booth using a portable VCR-TV combination - nobody will stay and watch the whole thing, but we are a TV generation and our eyes are naturally drawn to a TV. It also serves as an unspoken reassurance that your products are in fact hand made.

- Sense of Sound - When somebody stops by at your booth, engage them in conversation. If you must sit, sit on a stool so that you are approximately at eye level - folks subconsciously don't want to talk down or talk up. Ask them specific questions - not "Do you like that?" but "What do you like best about that?" or "What would you like to see done differently?" If they have kid in tow, ask about the child's interests, etc.
- Sense of Touch - Possession is 9/10 of the sale, some say. If you can, put your product in their hands. If that would be awkward, hand them something related to the craft item and use it as a starting point to tell the story behind the product.

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- Sense of Smell - Ever go into a real estate open house? Smart Realtors® know to put some banana bread in the oven so the whole house smells 'homey.' You can do this for your booth as well - you won't have an oven but a bit of potpourri can serve the same purpose.
- Sense of Taste - The tried and true technique of giving away goodies is sure to attract a crowd. Sure, some of them will be 'moochers' - but people naturally go to wherever there is a crowd.

Have as much product on hand as you can before you go to the show - but resist the urge to sell out. In most cases you are not allowed to leave the show early - not if you want a chance at any other shows put on by the organizer. Keep the last of each type as samples, and then have lots of order blanks on hand. If somebody wants one of your last, you can tell them they can pick it up at the show's end, or you can take the order, they can pay for it so somebody else doesn't get it, and you'll ship it to them after the show.

You can now sell the same item to many people - you just need to go make that many more copies! As an added benefit, this allows you to spread the production out a bit beyond the pre-show rush.

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08-Running The Biz

Contents

1. Tracking
2. Contracts
3. Fulfillment
4. Merchant Card Status
5. Check Drafts
6. Competition
7. Getting Help

Any corrections or additions? Please let us know!

1. Tracking

If it is going to be just you in the business, and you are going to be out and about delivering craft items or shopping for ingredients, you need to consider how your phone will be answered. Not only should your telephone be answered in a professional manner, you will also have to reassure people who call that their message got through.

If a business executive needs something done quickly and calls you but gets just a recording "I'm sorry, nobody is available to take your call, please leave a message", that is not going to do anything for their stress level. You should probably at least have a pager. That way your message could include "Page me at 233-3844 if your need is urgent. Otherwise, I check my messages and return calls twice daily at 12 and at 3." This will give people assurance that you are reachable, and if the need is not urgent when they can expect a call back.

Alternatively, you can contract with a good answering service. The two advantages to using a service with a real person are that you'll get your number answered in your company name, and the person answering the phone can forward messages, page you, or hold messages ased on your instructions and their judgement.

Initially, keeping track of all the things you have to do might not be too difficult. Once you start getting busy however, you'll need a system to prevent anything from falling through the cracks.

The key to making a profit at this is in constantly looking at how you can improve your efficiency. If an item is going to sell for \$40 and it takes you two hours to make and deliver it, then the most you can get out of each is \$20 MINUS all your costs. If on the other hand you get more efficient at it and can do four an hour, you've multiplied your potential earnings eight times.

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2. Contracts

It's always a good idea to have a written agreement when you are working on a client project. The purpose isn't to haul people into court, it's simply because our memories of what we agreed to verbally today will not be the same in three weeks.

My own philosophy on contracts is that they should be as simple as possible. You don't need a bunch of legal gobbledygook (the party of the first part and the party of the second part do hereby, etc.).

Simply write out what you will do for the client, and what they will do for you (including payment) in simple bulleted list format.

The legal requirements for a contract to be valid:

1. Both parties must be identified.
2. Both parties must be authorized to sign
3. There must be some form of compensation
4. Dated signatures must be applied
5. There must be an expiration date.

As long as the contract you write honors these five elements, it will be enforceable, no matter how written or what it is called. I make all mine "agreements", since contracts tend to scare people.

3. Fulfillment

Let's talk about dependability. It has a lot to do with your reputation and your long term success.

The first step to making yourself look good is to under promise and over deliver.

Simply put, if you think that you can get something to a client by 3PM, tell them they should get it by 5PM. If you show up at 3:15 and you told them 3, you are late and bad. If you show up at 3:14 and you told them 5, you are wonderful.

Always build yourself a cushion.

One of the reasons you might need one is if you have car trouble. One way of recovering is to have somebody who is available on very short notice to come get you. Perhaps a more practical back-up plan is to be a member of the car rental company corporate plans. Typically there is no or a nominal charge. The benefit is that if you have a problem, they'll come out to you and let you drive away in the rental, while they wait for the tow truck for your vehicle. You won't make any money having to pay for a rental and a tow, plus repairs, but at least your clients will be happy. The unfortunate

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fact is that if you are late delivering something important, and go in saying you had car trouble, your clients will tell you they understand. But what they will remember is that you were late.

4. Merchant Card Status

You want to see your business jump by 50-60% almost instantly? Then you'll need to get merchant status with the credit card processing companies. That way you can advertise that you take MasterCard, Visa, Discover, American Express, and maybe more.

The Craft business is an impulse, urgent buy type of business. You don't want the decision to buy your product to be based on how much money is in the checking account or wallet. If people can put it on their "plastic," they are much more inclined to order, and much less inclined to worry about the price.

How do you get such status? There are five ways.

1. You can go to your bank and see if they will give it to you. The advantage is that their fees are probably quite reasonable, and it helps build your relationship with your bank. The disadvantage is that many banks won't give such status to home based businesses. You can shop around to the other banks, or use one of the other options.
2. You can try the slow but steady step-up method. First, apply to take the American Express Card by calling them up directly. They are the easiest to get accepted with. Once you have been accepted by AMEX and have had no problems for a few months, apply to NOVUS, the marketing company for the Discover card. If they see you already take American Express satisfactorily, they may grant you merchant status for Discover. Ask if they will also give you status with Visa and Mastercard. In some cases they will with no problem, in others you'll wait for a few months and if there have been no problems (charge-backs, etc) with your Discover card, then they will probably grant you Visa and Mastercard privileges as well.
3. You can go through a private company. Known as ISO's or Independent Sales Organizations, they usually can find a way to get you approved. **HOWEVER, BE CAREFUL.** Some of them charge high non-refundable application fees (meaning they make money whether you are approved or not, hardly an incentive to do much for you). They also may charge all kinds of "garbage" fees. Monthly maintenance fees, minimum monthly fees, statement fees, batch processing fees, etc. None of those help you at all. Shop around well before committing. Biz\$hop can get you set up with fair rates for merchant card processing.
4. If there is a Price/Costco warehouse club nearby, they offer the lowest prices for equipment and processing that I've found. You have to join as an executive member, which is \$100 per year instead of the normal \$35 or so.

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In most cases, regardless of which way you get your merchant status, you'll need a terminal to key in the customer's credit card. You can lease these (typically for \$30-\$50 per month for 3 years NONCANCELLABLE) or buy them for a price that might range from \$280 to \$1200. Buying will save you a lot of money in the long run. You may also buy or lease software that will run on your computer and process the card transaction. The price is quite similar usually.

There is typically a discount rate, or percentage, that the credit card processing company keeps on any credit card transaction. This might be from an average of 2-3% for Visa and Mastercard, to about 3.5% for American Express. There may also be per transaction charges, perhaps 20 or 30 cents per charge IN ADDITION to the discount fee.

Note that you usually pay about half a percent higher for non-swipe transactions - those situations where you don't actually swipe the card through the terminal (such as phone or internet orders.)

5. Check Drafts

Another payment method you might consider, especially if you do a lot of orders for people outside of your local area, is to accept checks by email, phone or fax. The banking laws now permit you to print out a check on your computer printer, based on authorization received from your customer, and deposit it into your bank account. All it takes is a font that prints those strange characters on the bottom of the check, and an entry in the signature block.

6. Competition

Don't worry much about it. In fact, welcome it. If there is another crafter making something very similar to yours in an other area, it isn't going to hurt you. If you are trying to introduce a new item, another crafter doing the same thing means that you don't have quite as large an education job ahead of you. Their advertising and marketing has really uttered up your clients for you.

Another reason to welcome competition is for backup. If you suddenly find yourself overwhelmed with more work than you can handle, or if you find yourself flat on your back after a skiing accident, your competition can be your safety net.

Don't worry about there not being enough customers. At your busiest, you may be serving several hundred customers per month. How many people live in your city? What percentage of them might buy gifts? There are more than enough customers - and remember that with mail order and the Internet you can reach huge numbers!

7. Getting Help

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Independent contractors

If at all possible, avoid having employees. Even if you find there is more work than you can handle, resist the temptation. As soon as you get involved with employees, you open up a whole bunch of complications.

You must withhold social security taxes, state taxes, and often local taxes from the employees wages. You have to contribute money out of your pocket to the social security system, workman's compensation system, and more.

You open yourself up to discriminatory hiring and wrongful firing lawsuits, and many other legal tangles. Your business can now be more closely scrutinized by any number of federal, state, and local government bodies. There is a lot of extra paperwork involved.

If you need extra people, bring them on as independent contractors instead. The industry norm is to pay them 50% of what the errand brings in, and they are responsible for their own vehicle, insurance, etc. In fact, you must be VERY careful about paying for any of their expenses. The IRS loves to reclassify independent contractors as employees, and that generosity on your part might just allow them to do that.

The rules on independent contractor status are vague, and are currently under review/attack by Congress. The IRS has a 20 point checklist for determining if somebody is an employee or contractor, but even those checklists are open to wide interpretation. That may change in the near future. Be sure to check with an attorney, accountant or consultant before you bring anybody into the business as an independent contractor. Let them explain clearly to you what is and is not currently allowed, and what can get you into trouble.

The basic premise is that an independent contractor is in a business of their own, of which you are a client. You cannot control them at all, except to specify results. This needs to get done by then. You start getting into trouble if you try to say how it should be done, if you supply equipment, if you restrict the independent contractor in any way from doing business with others.

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09 -Resources

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17. Woodworking
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Any corrections or additions? Please let us know!

1. Associations

National Crafts Association
<http://www.craftassoc.com/>
 National Craft Association
 2012 East Ridge Rd., #120
 Rochester, NY 12622-2434
 1-800-715-9594
 Fax 1-800-318-9410
 NCA is the Information and Resource Center
 for the Professional Arts & Crafts Industry.
 Membership is \$75 per year, but check site for specials

2. Magazines

Craftmasternews.com
 Listing of craft shows throughout the Western US. Monthly print listing
 shows 6 months in advance, some listings also online.
<http://www.craftmasternews.com/>

Aleene's Creative Living

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<http://www.aleenes.com/>

Very cool site. Check out the Project Library! Lots of information online, and you can subscribe to the print magazine online.

American Patchwork & Quilting

<http://www.bhglive.com/crafts/apq/toc.html>

Not much online. Visit the Better Homes & Gardens' Craft Collection for a few sample projects online. Print magazine includes project ideas, quilting contests, tools and new products for quilting and patchwork, stitching tips and techniques, pattern sheets, and step-by-step instructions for creating beautiful quilts and accessories.

Arts & Crafts Magazine

Bimonthly magazine for craft enthusiasts throughout the U.S. and Canada. Each issue contains ideas and suggestions for a wide variety of crafts projects and designs, including how-to articles, patterns, and similar materials.

The Cloth Doll Magazine Online

<http://www.TheClothDoll.com/>

Country Gardens

Country Gardens helps you create your own country dream garden filled with colors and fragrances to delight the senses. The magazine profiles fascinating people whose personalities infuse their gardens. Every quarterly issue presents idea-filled gardens, success secrets, detailed garden plans, expert know-how, and lavish photos.

Country Sampler's Decorating Ideas Online

<http://www.sampler.com/decideas/decideas.html>

Lots of do-it-yourself projects and decorating tips, and they've got their project archive online!

Craft Creations Magazine

<http://www.craftcreations.com/Magazine/maginfo.html>

Ideas for making greetings cards and a multitude of crafts. Articles and projects are available in .pdf format. It looks interesting, but is this magazine only available in the UK?

The Crafts Report Online

<http://www.craftsreport.com>

They help you "Grow Your BUSINESS"

Craft Supply Magazine

<http://www.craftsupply.com>

"The only trade magazine written exclusively for the Professional Crafter"

Published bi-monthly, they have a featured article online, and a professional crafter profile.

Crafts'nThings Magazine Online

<http://www.craftsnthings.com>

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Lots of online projects. Print magazine is packed with how-tos and tips to make crafting a pleasure. Each issue offers full-size patterns and easy-to-follow directions for a wide variety of projects.

The Cross Stitcher Magazine

<http://www.thecrossstitcher.com>

"America's BEST Cross-Stitch Magazine" - includes Seasonal Designs, Florals, Wildlife and more. Online: free projects, subscribe, and submit a project. Projects are available in .pdf format as well.

Decorating Digest Craft & Home Projects

Decorating Digest Craft & Home Projects is a bimonthly magazine with an emphasis on home and crafts, including instructions and patterns for needlework, sewing, painting, quilting, cooking, and decorating. Each digest-sized issue includes dozens of projects to enhance your home and fabulous gifts that can be made inexpensively — all with easy to-follow instructions.

Dolls

The doll collector's magazine, explores the world of collectible contemporary and antique dolls. Its goal is to help collectors fully enjoy the dolls they own and assist them in putting together outstanding collections. Each issue of *Dolls* brings excitement to one of the world's most popular hobbies — doll collecting.

Martha Stewart Living Omnimedia

<http://www.marthastewart.com>

Mother Earth News Online

<http://www.motherearthnews.com>

The Mother of all magazines... gardening, recipes, do-it-yourself living, all things earthy... and lots of stuff online! Subscribe online or call 1-800-234-3368 (U.S. orders)

PACK-O-FUN Magazine

<http://www.pack-o-fun.com>

LOTS of online project for Kids, Families, Youth Groups, Scouts, Schools, etc.

Painting

<http://www.paintingmag.com>

Decorative painting techniques for acrylics, oils, watercolors and fabric painters, from beginner to advanced. Quite a few projects available online. You can subscribe at their website and you can submit your own article.

Rubber Stamper Magazine

<http://www.rubberstamper.com>

The Rubber Stamper is packed with terrific info for stampers. Sadly, no online projects yet, but you can subscribe online or submit your own project.

Sunshine Artist Magazine

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<http://www.sunshineartist.com>

"America's premier show and festival publication" - a must for professionals.

Tole World

The longest-running decorative painting magazine in the industry, containing the very latest in decorative arts projects.

Woodworkers Journal

<http://www.woodworkersjournal.com>

Online you get a Tip of the Week, an overview of the current issue, and you can order back issue plans for their most popular projects.

3. Festival and Show Info

Arts & Crafts Show Business

<http://www.artscraftsshowbusiness.com/>

Arts & Crafts Show Business is a monthly show guide listing events in Florida, Georgia, North Carolina and South Carolina for up to twelve months in advance. We also list wholesale sources, competitions, exhibitions, wholesale shows and information on the many aspects of the arts/crafts business. Each issue contains all the shows, fairs and festivals we have information on for the next 12 months.

Festival Net

<http://www.festivalnet.com>

'Nationwide craft show, art fair, music, festival & event guide. We publish Thousands of events (10,000+) throughout the U.S. presented in an EASY to READ clear format with extensive DETAILS, updated and expanded daily. Ideal for the professional artist, crafter, musician, performer, agent, researcher, vendor...!' \$49 annual fee for show details.

SAC Newsmohtly

<http://www.sacnewsmohtly.com/>

is a monthly tabloid newspaper and website targeted to exhibitors who display and sell their items at Fine Art/A&C/Pow Wow Shows & Events Throughout the United States We List Thousands of Show Details in Every Issue! Subscriptions are \$24 for the Printed Version or the Web Version (subscription required for show details)

4. Quotes

"He who works with his hands is a laborer. He who works with his hands, and his head is a craftsman. He who works with his hands, and his head, and his heart, is an artist."

St. Francis of Assisi

5. Basketry

Ozark Basketry Supply

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Baskets, materials for making your own baskets, novelties, ropes, cords, braids, wire handles... this is a great catalog for anyone interested in basket weaving. They have a good selection of books for beginners, and you can request samples(call for amount per sample). Email OzrkBasket@aol.com or call (501) 442-9292.

Basketweaving and Caning Supplies

Large variety: naturals, Irish waxed linen thread, Shaker Tape, books, tools, more! Retail. Wholesale. Catalog (call for charge). Royalwood, Ltd., 517-CT Woodville Rd., Mansfield, OH 44907. 1-800-526-1630. Fax: 419-526-1618.

6. Candlemaking

Candle Making Supplies by Lynden House International Inc.

Nice selection of candle making supplies including 100% pure beeswax sheets, paraffin, scents, dye and wicking.

<http://www.lyndenhhouse.net>

Pourette Candle Making Supplies

Free 12 pg. introductory catalog. Call 1-800-888-9425 or send email to pourette@aol.com. Shop online at <http://www.pourette.com>

7. Cooking

Frontier Cooperative - Wholesale cooperative for aromatherapy, culinary spices, organic coffee and natural remedies. You can request a catalog from their site at <http://www.frontiercoop.com> or by calling 1-800-669-3275.

8. Dolls & Doll Houses

TDI Dolls

Over 50 Porcelain Doll Kits. Reasonably priced. Porcelain doll heads for craft projects. Stands, wigs, patterns. Many great craft ideas. Catalog, (call for charge). TDI Dolls, PO Box 690, Cave Creek AZ 85331.

Mott's Miniatures & Doll House Shop

Doll houses, kits, dollhouse furniture, dolls, building components and accessories. Free catalog. <http://www.mottsminis.com>

9. Gardening & Floral

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Wholesale or retail clay pots and related gardening containers. You have to call them to request a username and password to see their price list online. What's that about? Visit their website at <http://www.claypots.com/> or call (734) 379-9622.

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or call 541/928-9280

10. Glass Etching & Glasswork

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To request a printed catalog, email your full name and full mailing address to: Etchgal@IDT.net OR call 1-800-872- 3458. Catalogs are mailed for free within the USA only. If you are outside the USA, mail (call for charge) to Eastern Art Glass, PO Box 9-AEM, Wycoff, NJ 07481 USA.
www.etchworld.com

Stained Glass Workshop

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11. Leather

Tandy Leather Company

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Weaver Leather - Call 1-800-WEAVER1 (1-800-932-8371) to request a catalog. Entirely mail order, they have a good selection of leather, tools, and hardware, including specialized harness hardware items.

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Wholesale craft supplies. Minimum order is \$50.00. (They will need a record of your tax or business license number for wholesale purchases.) Visit their website at <http://www.craftwholesalers.com>. Printed catalog (call for current charge), refundable on your first order. For a catalog, call 1-800-666-5858 or request online.

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Shop-At-Home Catalog

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S & S Worldwide

Good variety of arts & crafts catalogs, plus specialty catalogs available for Early Childhood Education and Curriculum. You can order a catalog and shop online at <http://www.snswwide.com>

Sunshine Discount Crafts

"Deep Discount Craft Catalog". To request a catalog, call 1-800-729-2878 or visit their website at <http://www.sunshinecrafts.com>.

13. Beads & Jewelry

Beads / Beadworking Books

Catalog (call for current charge). World famous Creative Beaded Earrings, Vols. 1-4, (call for current charge). Veon Creations, 3565 CT, Hwy V, DeSoto, MO 63020. 314-586-5377.

The Center for Beadwork & Jewelry Arts in Nashville, TN, offers 3 business of jewelry making courses.

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Getting Started in Your Jewelry Making Business (2 hours, \$25.00 fee)

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Pricing and Selling Your Jewelry (2 hours, \$25.00 fee)

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Marketing Your Jewelry (2 hours, \$25.00 fee)

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All three classes are offered 2-3 times a month at the Center for Beadwork and Jewelry Arts in Nashville, TN. For more information, please visit our web-site at:

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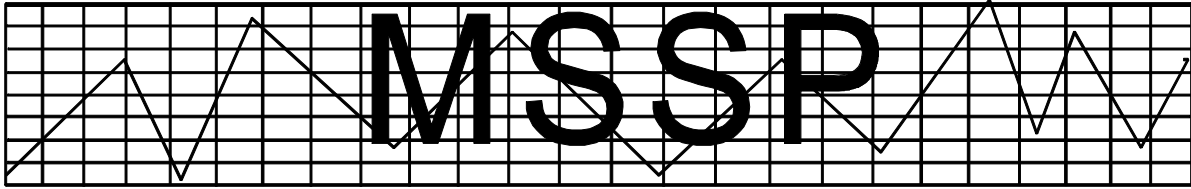
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Market Segment Specialization Program



Artists and Art Galleries

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ARTISTS AND ART GALLERIES

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Chapter 1

INTRODUCTION

GENERAL DESCRIPTION OF THE INDUSTRY

The Art Gallery industry is a wide and diverse creature. To merely mention the term gallery conjures up many different thoughts to different people. To some it is merely paintings, to others it is architecture, pottery, rugs, and even jewelry. The term art is a wide and varied term.

The industry can be broken down into several categories.

General -- Paintings, Sculpture, other framed art work. There are many different subcategories in each of the above which will not be discussed at this time. See the Exhibit 1-1 for a listing of the different types of paintings.

Ethnic Art -- This is as varied as the "General category." It ranges from Mexican, African, South American, Asian, and local items. Local items will vary depending the area of the United States. Ethnic is also varied and different depending on the originating cultures.

Prints -- This type of work is different from paintings as it is a produced item. There are several different methods used to produce a print such as offset, serigraph, lithograph, and photography.

Other -- As mentioned previously, the art world is a diverse industry. To merely list the above and classify all items within these categories cannot be done. Also included in the art world are jewelry, wood carvings, pottery and ceramic items, antiques, furniture, and a myriad of other items.

The term "artist" itself is important. There are two types of artists, living and deceased. "Living artists" are those who sell their art works either as a hobby or as their occupation. These art works can be worth very little or maybe worth hundreds of thousands of dollars. The living artists may even have their art work sold a second and third time. After the work is bought the first time, it may find its way back into the gallery again or at an auction house for sale. The "deceased artist" may or may not be famous. Artists such as Picasso, Van Gogh, or Norman Rockwell are famous deceased artists. However, there are many deceased artists who do not have the notoriety of these artists. Their works are of no less importance though. These works of art have usually been sold at least once. They can range in price anywhere

from thousands of dollars to millions of dollars.

The galleries cater to the various types of works available. Galleries would sell pottery, baskets, rugs, and jewelry. The gallery may be a pure painting gallery showing only impressionist paintings. Another gallery may sell a little bit of everything. Therefore, it is difficult to make a list of art galleries that offer only one type of art.

The galleries themselves vary in size. They range from having gross receipts of \$50,000 to over \$60 million. They may only take works of art on consignment or may have inventory over \$40 million. Depending on the size of the gallery and dollar amount of the items sold, the activity of the galleries vary. Some galleries sell a large amount of small dollar items, while some sell fewer, but higher priced items.

Gallery owners are the key to the business. Are they experienced artists themselves, collectors turned salesmen, or merely entrepreneurs trying to make a profit? The more knowledgeable the gallery owner is about the art work, the clientele, and the market, the better the business will function. While looking at the industry, there were many galleries that were competing side by side with nearly the same type of art, at about the same prices, and one would fail and one would succeed. The difference appears to be the owner of the business and his or her working knowledge of the industry. This one factor seems to determine the overall strength of the business.

INDUSTRY DESCRIPTION AND CHARACTERISTICS

An **"artist"** can be defined as almost anyone who creates a work of art, possesses the talents and abilities to master certain techniques when applied to production of a specific item (whether a painting, sculpture, jewelry, etc.), and produces art in whatever form that has intrinsic value to the "market" for which it was produced.

An **"art gallery"** (defined again later) is the medium or outlet through which the works of art are marketed. It is the wholesale or retail establishment through which one can acquire ownership of an item of art either for personal enjoyment or resale.

Art objects are bringing extremely high returns. The galleries have the ability to make the "unknowns" popular in the industry. The galleries representing the more popular skilled artists have been able to reap the economic rewards without tying up large amounts of capital investment in inventory by selling on consignment.

It is difficult to monitor compliance by artists because galleries selling art works on consignment are not required to report the sales via information returns (Forms

1099). Additionally, some artists generally prefer the use of "cash" for personal living expenses and often deal in cash which makes gross income probes of artists a challenge for any examiner. This MSSP Guide concentrates on the use of "third party" contacts in proving income since the use of cash can be an integral part of the artist's life-style.

COMMON CHARACTERISTICS OF THE INDUSTRY

The following are a few of the common characteristics and audit issues discovered in this market segment:

1. Unreported income from cashed checks from galleries to the consigning artists
2. Inventory valuation problems for "trades" between the artists and the gallery owner and between gallery owners
3. Diversion of income by sale of credit card business to related or other entities
4. Avoidance of state sales taxes on art sales by using certain schemes devised by art brokers to market the art in other states
5. Capital gains vs ordinary income from sales by gallery owners as investments vs inventory
6. Identification of sources through "cost of goods sold" who failed to file/report transactions by analysis of canceled checks and payment/transaction records
7. Framing costs not properly capitalized
8. Very high travel and entertainment costs with low gross receipts indicative of potential "hobby" vs business loss
9. Sales of art works disguised as "loans" secured by art as collateral and possible "money laundering"
10. Other "financial status" indicators with artists'/gallery owners' life-styles being considered against reported income
11. Potential issue on foreign artists who consign to galleries (International Referral Required)
12. Art work being deducted as a charitable contribution, while not being taken out of cost of sales.

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DEFINITIONS

TYPES OF PAINTING STYLES

Realism

Treats all facets of daily life in a style that shows frank enjoyment of the natural shapes, textures, and colors of things and a delight in the manipulation of the paint itself.

Impressionism

Depicts the natural appearances of objects by means of dabs or strokes of primary unmixed colors in order to stimulate actual reflected light.

Post Impressionist

Revolt against impressionism, stresses variously volume, picture, structure, or expressionism.

Abstract

Art in which the artist attempts to convey his or her attitudes and emotions through nonrepresentational means.

Cubism

Sought to reduce nature to its basic geometric shapes, often viewing objects from several sides simultaneously.

Pop Art

Art and Mass Media.

Surrealist

Producing fantastic or incongruous imagery of affects by means of juxtaposition and combinations.

Western Art

Depicts life of Western America through cowboys, Indians, landscapes, and images of western life. The medium can be either painting or sculpture.

Acrylic

A clear plastic used as a vehicle in paints and as a casting material in sculpture. Noted for its quick drying and luminosity.

Oil

A paint which is a drying oil is the vehicle. Oil color is more easily mixed than acrylic color.

Pastel

A combination of pure pigment and binder forming permanent colored sticks; noted for colors which go from soft to brilliant. When ground is completely covered with pigment, the work is considered pastel painting: leaving much of the ground exposed produces a pastel sketch.

Watercolor

A painting compound of water-soluble pigment.

TYPES OF PRINTS

Offset Printing

A process in which an inked plate is used to make an impression on the rubber surface of a roller which transfers it to paper.

Lithograph

The process of printing from a small stone or metal plate on which the image to be printed is ink-receptive and the blank area is ink repellant. The artist or other print maker, under the artist's supervision, then covers the plate with a sheet of paper and

runs both through a press under light pressure. The resultant "original print" is of considerably greater intrinsic worth than the commercially reproduced poster which is mechanically printed on an offset press.

Serigraph

A form of print making which utilizes stencils attached to porous screens that support delicate areas of the cut design. Most often issued in signed and numbered editions.

Artist Proof

One of a small group of prints set aside from the edition for the artist's use.

Edition

A set of identical prints, sometimes numbered and signed, pulled by, or under the supervision of the artist. The edition may either be open (unlimited) or limited.

SCULPTURE

Lost Wax Process

A method of casting metal sculpture requiring a wax version of the original model. The wax form is encased in a heat-resistant molding material. Baking the mold causes the wax to melt and run out leaving a cavity in its place. The cavity is filled with molten metal which solidifies to become the sculpture when the mold has been broken.

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Chapter 2

METHODOLOGY

ARTISTS

A review of the industry was made in the following manner:

Initially PIA codes were to be used to identify the industry. However, the market segment was not easily identified using prescribed PIA codes. Some of the common PIA codes used are as follows:

Form 1040: 5884 - Other Retail
4671 - Jewelry Store
1883 - Other Manufacturing
6882 - Other Personal Services
1073 - Fabricated Metal Products
7880 - Other Business Services

Form 1120: 3490 - Misc. Fabricated Metal Products
5995 - Other Retail Stores
8980 - Miscellaneous Services.

Since PIA codes were not the best source, other means were necessary to identify the market segment. The first method used was to refer to the local yellow pages under "Art Galleries, Dealers & Consultants." This listing will generally list most dealers and galleries located in a specific area. The advertisement will usually list the type of art the dealer/gallery carries or specializes in, for example, Southwest, rugs, paintings, sculptures, etc. A dealer in art is generally a person who owns or operates an art gallery, that is, a retail establishment with such overhead items as rent, utilities, wages, insurance, etc. A broker is generally someone who works on a commission basis for the artist and finds distribution points (galleries) in which to show and sell the artist's works. A broker generally has little overhead, except for travel to various galleries that may be prospective customers. Many times big-name artists will have galleries all over the country showing their art works and a broker is the one who coordinates which galleries will show particular pieces. Generally a living artist's work will only be shown in one gallery in a specific area (city). Therefore, two galleries in a city showing the same artist's works is very rare.

Another method used to identify galleries was to visit the area and obtain one of the art brochures/pamphlets. In Arizona there is a publication called **Art Life** that is used by the galleries to advertise the type of art work, artist, business location, and

hours of operation. The Chamber of Commerce in a specific city is a good place to acquire some of these brochures. These brochures will generally go into more detail than the yellow pages, sometimes even listing specific artists' names that they represent.

Another way galleries were identified was to simply walk around the area where the galleries were located. Most areas that cater to this type of industry are located in small, expensive towns or small areas of larger cities. They are generally located in "clusters" and visiting quite a few in a small amount of time is not difficult. While walking around these areas, take time to note the names, addresses, and locations of the specific galleries. Collect any business cards for future reference. Note the types of art in the galleries and their price ranges.

The next step was to perform the necessary research to identify the specific sample cases for examination. Where necessary, local personnel were consulted for updated research to identify specific characteristics desired in the sample.

During the examination of various art galleries the names of artists who consigned their works of art with the gallery were discovered. The names that developed into "leads" for other examinations were primarily those who "cashed" their checks from the gallery and did a predominant business with one gallery. Resulting research proved that a number of the artists identified lived outside the district and, thus, files were built and information transmitted via "Information Reports" to those districts. This can be a time consuming effort and use resources which otherwise could be applied elsewhere.

After examining several art galleries, efforts were focused on the artists. Research similar to that which was done on the art galleries was performed on artists. The location problems, PIA codes, and no requirements to file Forms 1099 were some of the considerations which the team faced as the project progressed.

Later examinations turned to the "trading posts," which will be described further in Chapter 4. The resulting emphasis was on the **cost of goods sold** sections in identifying and isolating certain **wholesalers** who sell jewelry and other forms of art work to these establishments. The "trading posts" are normally located on the major traveled arteries (interstate highways) and those traversing the Indian reservations between New Mexico and Arizona. Many of these examinations resulted in leads to a group of wholesalers who were furnishing merchandise to the trading posts. Some were found to be non-filers and many had substantial unreported income. The examination process led to several criminal and civil fraud referrals on such taxpayers. See Chapter 3, on Examination Techniques.

ART GALLERIES

The use of PIA codes is not an effective means of identifying the art gallery market segment. The galleries tend to use incorrect PIA codes and often the codes used are not indicative of their business activities. For example, the most commonly used PIA code for Forms 1040 is 5884 "Other Retail" and for Forms 1120 is 5995 "Other Retail."

The initial method to learn about the market was to visit galleries and obtain literature, business cards, and other industry information. From these tours of the galleries, EIN's and SSN's were secured from IDRS where possible. The galleries often conduct business under a different name than the owner. The corporate name may be the owner's name and not the gallery name. If the gallery is operated by an individual living in another part of the country, cross district research may be necessary. Returns were grouped based on an analysis of common characteristics and selections were made for examinations.

Another method of developing industry information was to look at advertising publications. In New Mexico the publication is called **The Collectors Guide**. In Arizona it is called **ArtLife**. These guide books are used by galleries to advertise the type of art work, artist, business location, and hours of operation. Since it is expensive to advertise in these guide books, not all galleries are listed. The guide books also contain maps and other advertising literature on the galleries. Use of this information is particularly effective in identifying a particular type of gallery.

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Chapter 3

EXAMINATION TECHNIQUES

BACKGROUND

All of the audit techniques described in this chapter relate to art galleries. This is due to the fact that the major issue involving artists is unreported income. Information to develop this issue is found in the books and records of art galleries.

PRE-AUDIT CONSIDERATIONS

There are several pre-audit steps involved when auditing an art gallery. The first is to determine if the gallery sells on consignment or its own inventory or both.

Galleries acquire the art work by two methods:

1. The gallery's art works may be on consignment. The reason consignment is so popular, is that the gallery does not have to expend any money to acquire the art work. If the art work does not sell, then the gallery will return it to the artist and get a new work of art. Since art is expensive, galleries do not want to be out of pocket for the purchase of art. The gallery and the artist agree for the gallery to show the artist's work. In exchange, the gallery charges the artist a percentage of the purchase price. The usual split is 50/50. The artist gets 50 percent of the gross and the gallery gets 50 percent. The split can vary and may be as low as 70/30. Generally, the artist will not take less than 50 percent; however, this is not always the case. Where the split is not equal, the gallery will take the lower amount. The reason for the differing percentages may be the artist's choice, or the cost to produce the work of art is high and requires more funding. For example, a bronze sculpture is very expensive to cast. Therefore, the artist's cost are greater. This method usually works well with living artists. The gallery will market the art for the artist, pay for the local art guide book, and incur any show opening expenses. See Exhibit 3-1 for a sample of an art gallery consignment receipt.
2. The gallery's art work may be owned by the gallery. The owner or buyer for the gallery will travel around the local area, the region, or across the country to find the art work. Many of these works of art are of deceased artists. Therefore, they must purchase the art work to resell. The owners or buyers travel to auctions, estate sales, other collectors, or even galleries. Some galleries specialize in certain types of art work. Therefore, they must own the art work. There are

certain occasions that a living artist has enough clout to require the gallery to purchase their art work.

When inspecting the return, consider the cost of goods sold, inventory, and sales. Does the taxpayer have inventory? Is the inventory amount low in comparison to the cost of sales? Is there a consignment expense on the return? If so, then the gallery probably sells on consignment. Is the inventory amount high? Do purchases exceed the cost of sales? If so, then the taxpayer probably purchases the inventory. The gallery can have a combination of both consigned and purchased works. However, it is important to know the type of gallery so you can ask for the right information during the initial interview.

Other expenses and financial status for the gallery owner require review. There are basic questions that should be considered. Do the expenses fit with type of gallery? If the gallery sells consigned goods, is there high travel and why? Travel is normally associated with purchasing inventory. If there are no employees and the car and truck expenses are high, why? Again, this could mean travel to purchase inventory. Lastly, how does the gallery owner survive if there is no salary? Is there another source of income?

INITIAL INTERVIEW

Since the initial interview is one of the most important aspects of the audit, the interview should be held at the gallery. This provides an opportunity to tour the gallery and note what type of art is on display. It is also important to have the owner of the gallery present during the interview. Almost all gallery owners have a "hands on" attitude and know exactly what is going on in their business. They are familiar with the different types of art work and the artists themselves. They may or may not maintain the books and records themselves. If they don't, a spouse, employee, or independent bookkeeper will prepare the books.

Exhibit 3-2 is a sample Initial Interview. Since all galleries are different, it is important to tailor the interview to the type of gallery under audit, so use your own imagination in asking questions. Since the audit is just starting, this is the best opportunity to gain knowledge about the operation of the gallery and the gallery owner.

INFORMATION DOCUMENT REQUEST

The information document request (IDR) is the examiner's first and best opportunity to get the needed information. Your initial IDR should include the normal request for books and records but should also include all records for consigned art received, returned, and sold during the tax year. Acquire ALL shipping records for the tax

year. Ask for canceled checks, especially those to artists. Examination of these checks will reveal if the checks were deposited or cashed. If cashed, obtain copies of these checks (front and back) for possible research into the artist's return.

Obtain documentation to verify that purchased inventory is being properly valued, is deducted only in the period in which it is sold, and all of the sales price is reported. Exhibit 3-3 are examples of IDR's for galleries operating as sole proprietorships, corporations, and partnerships.

TYPICAL BOOKS AND RECORDS

The books and records that are normally found in a gallery are the basic ones found in any industry. There does not appear to be any specialized computer program set up to handle the books of an art gallery. The galleries have general ledgers and general journals. The larger gallery will probably have all records on computer such as journals, ledgers, inventory records, and check disbursements. Some of the smaller galleries may still use manual systems.

There are some specialized areas that require careful consideration. The first item is inventory. If the gallery purchases its inventory, there should be a very detailed inventory listing. It should show date purchased, purchase price, any restoration and framing costs, date sold, and price. Restoration and framing cost many times are broken out separately. This expense is usually small in comparison to cost of goods sold as a whole. The inventory should be detailed enough for the auditor to follow any purchase from start to finish. However, the inventory cost may not be properly recorded, and the accountant may have adjusted the books to compensate for it. This is discussed further in Chapter 4, Audit Issues.

If the gallery sells on consignment, there will be a system in place to track consigned items. This system will generally identify the artist's name, address, description of art work, date the art work was received by the gallery, the asking price by the artist, and any other specific terms. It also indicates the date the piece was sold, sales price, and terms of the sale. Generally the artist sets the sales price. Many times galleries sell items on an installment plan, that is, 25 percent down and three more payments of 25 percent. When the full sales price is received by the gallery, the art work is released to the buyer and final payment is made to the artist. Sometimes the artist will require full payment from the gallery at the time of sale although the gallery has not received 100 percent of the sales price. This is rare and usually the artist is paid when the gallery is fully paid even when installments are made.

The gallery may keep large amounts of cash on hand. If the gallery specializes in local art, many purchases will be from the local or regional residents. Some of the artists do not have bank accounts. Therefore, they want to be paid in cash for any items purchased by the galleries. Since cash can be easily mishandled, there should

be good internal control over the cash drawer. There should be receipts or some other form of documentation for the expenditures from this drawer. If there are any unusual or odd amounts, or little to no documentation, there should be a more in-depth inquiry into the cash purchases.

The galleries usually issue numbered invoices prepared in duplicate or triplicate. The invoice will reflect the buyer's name, address, date of sale, amount paid (if not fully paid), terms of installment, sales tax, shipping charges, and the charge for framing the item (if it is the type of art work that would require framing).

Generally, when artists provide pieces to the gallery, they are not framed. The gallery will have the option of using a local framing shop or doing the work internally, should they decide to frame the piece to enhance sales. However, it is usually noted on the sales ticket that is attached to the piece displayed in the gallery that the frame is an extra cost to the purchaser.

Since sales of art to tourists and out of town customers often represents a sizable portion of the gallery's receipts, shipping costs are quite substantial for a gallery. This is normal, but since these costs are passed on the customer, verify that all shipping charges are included in gross receipts. One method to test gross receipts is to randomly pull shipping bills and trace them to sales. Sometimes when a particular piece has not been sold and the gallery does not feel it will sell, it will be returned to the artist as their space is limited and very expensive. They will either ship it to the artist at the expense of the gallery or the artist will personally come in and pick it up.

REQUIRED FILING CHECKS

Inspect related returns, employment tax returns, and prior and subsequent year returns. There are a few items to particularly note. The first item is whether or not the corporation is paying its officers as employees or independent contractors. IRC sections 3121(d)(1), 3306(i), and 3401(c) provide that any officer of a corporation is an employee. The adjustment would be to convert the officers to employees and assess the applicable taxes against the corporation. The reason a corporation does this is to solve a cash flow problem. If the corporation cash flow is poor, it would be financially beneficial to not pay its officer's FICA and let the officer file a Schedule C on his or her individual income tax return.

Since most galleries are privately owned, there may be an issue of the corporation renting property from the shareholder. There could be a passive loss issue if the rent is used to offset other passive losses. There is also an issue if the owner of the gallery is selling art work individually. The items are recorded on Schedule D. This may be done for several reasons. One is to offset a capital loss. Another reason is to avoid paying additional self-employment tax. The taxpayer may also be able to use the capital gain income to offset more investment interest. The examiner must be

aware of the date of purchase, the length held, and the amount of sale. The gallery owner, especially if the gallery is a corporation, may be operating another business on the side. Also verify where the art work was kept. Was it put immediately up for sale? Was it truly an investment, or was it the purchase of inventory?

AUDIT PROCEDURES

Three items to consider are income, cost of goods sold, and expenses.

Income

The sale of art work is a specific item business. Art is not a homogeneous product. Therefore, it should be easier to tie into specific item sales and trace them to the source. The income check and cost of goods sold can be verified together. Income will almost always match the receipts. Except for the rare occasion where there is a mistake, income usually ties from the books to the return. While looking into income, the examiner should be aware of any odd or unusual items. An example is where an item appears in inventory, but there is no sale.

Cost of Goods Sold

The cost of goods sold/purchases is probably going to be the most significant adjustment to gross income. While looking at cost of goods sold, trace purchases back to the time of purchase. Determine what was bought and for how much. Most galleries pay for large purchases by check, so the verification should be relatively easy. The examiner should be alert for items disappearing from the inventory record. The item may be sold and the income not be reported. This requires time and should only be done if there appears to be a problem.

For sales of consignment items, a different approach is taken. The artist should be receiving a consignment check. This payment may be monthly, at the time of sale, or according to other arrangements made between the artist and the gallery. What does the artist do with the check? Is the amount cashed or signed over to a third party? The canceled checks should be inspected for signature and deposit marks. The gallery is not required to give the artist a Form 1099 for the payments made, since there is no service being offered by the artist. It is important to determine if the artist is cashing the checks. This is a good indication that the artist may not be reporting the sales as income. This has been an excellent source of "leads" for unreported income and fraud cases. A problem that may be encountered is locating the artist. The first step is to get the information the gallery has on the artist, such as their full name, mailing address, phone number, and SSN, if possible. If the gallery does not have the artist's SSN, research IDRS. If you have problems locating the artist's SSN on IDRS, contact your local AIMS Coordinator for assistance. The artist may live outside your region and the SSN may not be found on IDRS. With the new

advances on IDRS, it may soon be possible to find the individual's SSN, even if they live outside your region. Again, if IDRS for the other regions is not available contact your AIMS Coordinator for assistance. Prepare a Form 5348, Information Report, on any unusual items noted. Include copies of the checks to assist with the other district's audit. As an added note, there may be times when a piece of art work is purchased and the check is cashed. Take all the same steps to make sure the sale is being reported by the seller of the art work.

One last item to review in cost of sales is whether the owner personally sells any items. It is possible that the owner may have sold a piece and not reported it on his or her own tax return.

Expenses

The expenses will significantly vary between galleries depending on the extent of their source of supply and whether they are aggressively marketing the product at various art shows, exhibitions, and private showings. Travel may be a large expense item and the scope of the audit would depend on the examiner's assessment of the gallery owner's overall operations. Other significant expenses could be framing costs and restoration costs. These should be capitalized not expensed when they become part of the saleable product (inventory).

Art brokers/agents may be paid commissions by the gallery owner for securing various items of inventory or by the artist for marketing his works. In any event, this expense can be found on both returns.

SAMPLE ART GALLERY CONSIGNMENT RECEIPT

The attached consignment receipt records the name, address, and phone number of the consignee artist, describes the item(s) being consigned, prices set by the artist, the date negotiated, and the signatures of the consignor and consignee. This type of document is somewhat typical of a consignment agreement in the industry which sets forth the terms and conditions of the consignment transaction between the artist and the gallery.

CONSIGNMENT RECEIPT

Date: 2-2-92

TERMS: 50% to artist
50% to gallery

FROM: _____ PHONE: _____

WORK: _____

| TITLE | SIZE | MEDIUM | PRICE |
|-------------------------------|------|--------|--------|
| small herd of horses | | wood | 200.00 |
| horses w/ jockeys | | " | 400.00 |
| buffalo | | " | 200.00 |
| shoulder to shoulder (horses) | | " | 200.00 |
| holsteins | | " | 200.00 |
| | | | |
| Maylarian Wood/one piece | | | |
| | | | |
| | | | |

CONSIGNMENT AGREEMENT: In consideration of the acceptance of the above terms, it is agreed: 1) The Artist appoints _____, Inc. an Arizona Corporation, as his/her sole and exclusive agent for the sale, trade (if any), and exhibition of all the Artist's work in Northern Arizona; that is, those counties north of Maricopa County, whether or not said work is listed in the Schedule of Work. The items are consigned to _____ consignee, title remaining in Consignor, with the right of Consignee to sell one or more of the same at the above price. 2) Consignment is at Consignor's sole risk of loss or damage unless otherwise agreed in writing in advance. 3) Insurance, if any, is the sole responsibility of Consignor. 4) Consignor agrees to pay Consignee the above stated commission on sale of the items, all agreed upon or customary charges with respect to the sale. 5) This consignment may be terminated by either party on 90 days notice, however, Consignee may terminate on seven (7) days notice due to space and/or other problems. Consignee's right to sell the items shall remain in effect in the period subsequent to notice and prior to termination.

ACCEPTED: _____ INC.
Consignor

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SAMPLE INITIAL INTERVIEW - ARTISTS/ART GALLERIES

The initial interview should be structured to the particular taxpayer under examination. No pro-forma style of interview "check sheet" approach is recommended or even suggested in this MSSP Guide. What follows are only suggested sample interview questions which can be included in the examiner's own interview format for artists and art galleries.

ART GALLERIES

General Questions

What type of art items do you sell?

How many locations do you sell from?

Do you have any special sales events away from the store?

What is the average price of a piece of your art work?

What is your price range?

Do you keep a inventory record?

What form of payment do you receive, cash, check, or credit card?

Do you have credit terms?

Do you have a customer mailing list?

Do you engage in any "trades" of merchandise?

If so, what are the terms and conditions of such trades?

How often did such transactions take place during the year(s) under examination?

How are these transactions recorded in your books and records?

Can you provide a sample of such transactions and provide the book entries which record a "typical" trade transaction?

Do you sell on the installment basis or do lay away sales?

When and how are they recorded?

Exhibit 3-2 (2 of 4)

Do you represent primarily only a few or many artists in your gallery?

Do you know of other galleries in the area or outside the local area where these same artists are represented? If so, can you supply the names/locations of these galleries and the artists they represent?

Do you ever do exclusive "showings" or "hangings" for artists who consign to your gallery?
How are these events handled?

Who pays the costs of travel, facilities, and other related costs?

Do you own art work as a personal investment? If so, do you have any of your personal collection or individual pieces on display here in your gallery?

Are these items for sale and do you price them yourself or does someone else price them?

How do you keep these items separate from your regular inventory of gallery owned or consigned merchandise?

Consignment Questions:

Do you sell on a consignment basis?

What are the terms and conditions of payment upon sale?

Who sets the prices on each item of consigned merchandise?

If you sell on consignment, who are the artists and what is the split?

How do you pay the consignor for the merchandise? Cash, check, or other form of payment?

When do you pay the consignor for the merchandise?

Do you pay at the time the goods are sold, when you received actual payment, or some other time?

If you pay in cash, what record is kept of the transactions?

Do you have any particular artists who insist on being paid in cash and how do you handle these artists requests?

Purchased Inventory:

If you purchase the art work, who are the artists? Do you have it for 19XX?

Do you travel to find the art work? If so, around state, region, country, international?

Do you purchase from collectors? If so, do you have their names and addresses?

Do you go to auctions?

Do you purchase items such as jewelry or pottery from walk- in vendors? If so, do you pay cash or check? How do you keep a record of the cash purchases?

Do you keep an accurate inventory of all goods held for sale?

How are the inventory records costed?

What type of records do you keep of your inventory of goods held for sale?

Framing Costs:

Who does your framing for you?

Do you use primarily one framing company?

How do you record your framing costs?

If a customer wants an item framed differently or in a custom frame, do you supply the framing, send it out, and how is the framing cost recorded if done separately from the painting sale?

Is the framing cost shown on your sales invoice?

What is your policy on shipping merchandise?

Do you use one or more shippers (UPS, Fed Express, etc.)?

Who pays for the costs, you or the customer?

How are shipping charges recorded?

ARTIST

Do you contract out your artistic services to any particular business, group, organization, or other entity? If so, how?

How many galleries do you show your art with?

What towns are these galleries located in?

Do you ever sell directly to a customer, bypassing a gallery?

What is your split with the galleries?

Do you pay for any of the show opening expenses or advertising expenses that the gallery incurs?

How do you record your sales?

Do you ever cash your consignment checks?

Do you ever get paid with cash?

Do you ever receive anything other than cash for your consignment payments?

Have you ever been "commissioned" to produce a work of art for a specific purpose (such as for a memorial, museum, or recognition of artistic value to a community, a city, state, county, or other governmental or non-profit organization?) If so, what were the terms, conditions, work performed, and how were you paid?

Did you do any such work in the years under examination?

SAMPLE INFORMATION DOCUMENT REQUESTS (IDR'S)**FOR AN ART GALLERY FILING FORM 1065**

| | | |
|--|---|---|
| Form 4564 Rev. 6/88 | Department of the Treasury Internal Revenue Service INFORMATION DOCUMENT REQUEST | Request Number |
| TO: Name of Taxpayer and Co. Div. or Branch | | Subject -Audit of Form 1065 for the year ending _____ |
| | | SAIN No. Submitted to: _____ _____ |
| Please return Part 2 with listed documents to requester identified below. | | Dates of Previous Requests _____ _____ |

1. Partnership Agreement.
2. Work papers used in preparing the return.
3. Books and records, such as Ledgers and Journals for Sales, Purchases
4. Information to show the balances at the beginning and end of the year for loans receivable and other amounts owed you.
5. Information to show the balances at the beginning and end of the year for all loans and other amounts you owe.
6. Records to substantiate all accounts receivable and accounts payable at the beginning and end of the year.
7. Bank statements, canceled checks, and deposit slips for all accounts for the year under audit plus the months before and after.
8. Copies of your Forms 1065 for years ending _____.
9. Copies of Forms 940, 941, and W-4 for the years ending _____.
10. Copies of Excise tax returns filed, e.g., Forms 720, 2290, etc.
11. Copies of the general partner's returns for the year ending _____.
12. Pension-Trust Forms 550, a copy of your plan, and determination letters, if applicable.
13. Worksheets utilized to reconcile the "books" to your return;
14. Detailed depreciation worksheets.
15. Accountant's Work papers regarding:
 - a. Year end worksheet reconciling books to return
 - b. Year end Adjusting Journal Entries and closing entries
 - c. Cost of goods sold
 - d. Beginning and ending Inventory Valuations
 - e. Copies of financial statement prepared for you
 - f. Any accounts analyzed by them at year end or for certification.
16. Contracts relating to guaranteed payments.
17. List of names, addresses, & SSN's (if applicable) of all artists in which you have made payments to in the years _____ for inventory.
18. All sales and purchase records/invoices/receipts for _____.
19. State sales tax returns for _____.
20. Substantiation, such as canceled checks or receipts for the following expenses deducted on your tax return:

Information Due By _____ **At Next Appointment** [] **Mail In** []

| | | |
|--------------|------------------------------------|-------------|
| FROM: | Name and Title of Requester | Date |
| | Office Location | |

SAMPLE INFORMATION DOCUMENT REQUESTS (IDR'S)

FOR AN ART GALLERY FILING FORM 1120

| | | | | | | |
|--|---|--|-----------------|----------------------|--|--|
| Form 4564 Rev. 6/88 | Department of the Treasury Internal Revenue Service INFORMATION DOCUMENT REQUEST | Request Number | | | | |
| TO: Name of Taxpayer and Co. Div. or Branch Please return Part 2 with listed documents to requester identified below. | | Subject - Audit of Form 1120 for the year ending <hr/> <table style="width:100%; border: none;"> <tr> <td style="width:50%; border-right: 1px solid black; vertical-align: top;"> SAIN No. </td> <td style="width:50%; vertical-align: top;"> Submitted to: </td> </tr> <tr> <td style="border-right: 1px solid black; height: 40px;"></td> <td style="height: 40px;"></td> </tr> </table> <hr/> Dates of Previous Requests | SAIN No. | Submitted to: | | |
| SAIN No. | Submitted to: | | | | | |
| | | | | | | |

1. Corporate Minute Book/Stock Record Book.
2. General Ledger and subsidiary ledgers, if applicable, i.e., sales, purchases, accounts receivable, accounts payable, etc.
4. Chart of Accounts
5. Cash Receipts and Disbursements Journals, i.e., Check Register
6. Listings of Beginning and Ending Accounts Payable and Accounts Receivable
7. Detailed Depreciation Sheets
8. Accountant's work papers regarding:
 - a. Year end worksheets reconciling books to return
 - b. Year end Adjusting Journal Entries and Closing Entries
 - c. Year end Bank Reconciliations
 - d. Cost of Goods Sold
 - e. Beginning and Ending Inventory Valuations
 - f. Copies of financial statements prepared for you
 - g. Any accounts analyzed by them at yearend or for certification
9. Copies of prior and subsequent tax returns
10. Copies of all Officers and Shareholders' personal tax returns - Federal for the years ended _____.
11. Bank Statements and canceled checks for the year under audit plus the month immediately proceeding and following.
12. Forms 940, 941, W-2, and 1099 for the years _____.
13. Any excise returns required to be filed
14. Pension-Trust Forms 5500, a copy of your plan and determination letters of applicable.
15. Worksheets utilized to reconcile the "books" to your tax return.
16. Records of all loans and repayments including loans to and from shareholders and also Accounts receivable, if applicable.
17. List of names, addresses, and SSN's (if applicable) for ALL artists in which you have made payments to in the years _____ for inventory purchases or consignment payments.
18. All purchase records/invoices/receipts for _____.
19. All sales records/invoices/receipts for _____.
20. Copies of State sales tax returns for _____.
21. Substantiation, such as canceled checks or receipts for the following expenses deducted on tax return:

Information Due By _____ At Next Appointment [] Mail In []

| | | |
|--------------|------------------------------------|-------------|
| FROM: | Name and Title of Requester | Date |
| | Office Location | |

SAMPLE INFORMATION DOCUMENT REQUESTS (IDR'S)

FOR AN ART GALLERY FILING FORM 1040

| | | | | | | |
|--|---|---|-----------------|----------------------|-------|-------|
| Form 4564 Rev. 6/88 | Department of the Treasury Internal Revenue Service INFORMATION DOCUMENT REQUEST | Request Number <hr/> | | | | |
| TO: Name of Taxpayer and Co. Div. or Branch Please return Part 2 with listed documents to requester identified below. | | Subject - Audit of your _____ Form 1040 <hr/> <table style="width:100%;"> <tr> <td style="width:50%;">SAIN No.</td> <td style="width:50%;">Submitted to:</td> </tr> <tr> <td>_____</td> <td>_____</td> </tr> </table> Dates of Previous Requests _____ | SAIN No. | Submitted to: | _____ | _____ |
| SAIN No. | Submitted to: | | | | | |
| _____ | _____ | | | | | |

1. Copies of Federal Income Tax Returns for the years _____.
2. The following Employment Tax returns for the year under examination.
 If applicable: Forms 940 and 941
 Forms W-4 for all employees.
3. Information returns (form 1099) you were required to file for the year under examination, if applicable.
4. Partnership, Corporate, or Trust returns for years _____ in which you are a partner, shareholder or beneficiary of
5. **ALL RECORDS** used to determine income on the return for the year under examination, such as Forms 1099 and W-2 received and books and records used to record income.
6. Substantiation, such as a canceled checks or receipts for the following expenses deducted on your tax return:
7. **ALL BANK STATEMENTS**, canceled checks and deposit slips for the months of December _____ through January _____. (This includes CHECKING, SAVINGS, both BUSINESS AND PERSONAL, and accounts of BOTH SPOUSES.)
8. All sales records/invoices/receipts for _____.
9. All purchase records/invoices/receipts for _____.
10. All Inventory Records for _____.
11. State sales tax returns for _____.
12. List of names, addresses, and SSN's (if available) for ALL artists to whom you have made payments in the years _____ for inventory purchases or consignment payments
13. Access to ALL invoices
14. Information regarding nontaxable income received in the year under examination. (Please include the amount received and the source of the income.)
15. Invoices for ALL asset purchased in the year under examination.
16. Information about outstanding loans for the year under examination. (copies of notes, amounts paid, and amounts received on notes.)

| | | |
|---|---|--------------------------|
| Information Due By _____ At Next Appointment [] Mail In [] | | |
| FROM: | Name and Title of Requester _____ | Date _____ |
| | Office Location _____ | |

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Chapter 4

AUDIT ISSUES

TRADES

An issue arose as to the treatment of trades. It was found when a gallery would trade its inventory to another gallery or individual for another piece of work, the trades are treated in one of three ways:

1. Recorded on the books as nontaxable. The basis of the new item received is the same as the item given up plus any boot received. Boot received would be reported as income.
2. Recorded as a taxable event. The basis of the new item is the fair market value, that is, cost.
3. Hybrid method using parts of both methods.

The proper way to treat the trade is number 2. The reasons are set forth as follows:

1. IRC section 61 defines income from whatever source derived. The regulations state:

Extract

Treas. Reg. section 1.61-1

*** Gross income means all income from whatever source derived, unless excluded by law. Gross income includes income realized in any form, whether in money, property, or services. Income may be realized, therefore, in the form of services, meals, accommodations, stock, or other property, as well as in cash.***

* * * * *

2. In **James A. Engineering, Inc.**, 39 T.C. 482 (1962), **aff'd**, 339 F.2d 706 (5th Circuit 1964), the court ruled that income includes the FMV of assets received.
3. IRC section 1031 allows for the tax free exchange of like kind assets. However, IRC section 1031(a)(2)(A) makes an exception for stock in trade held primarily for resale (that is, excludes inventory).

4. Furthermore, under Treas. Reg. section 1.001-1(a), gain or loss is realized when property is exchanged for other property "differing materially in either kind or extent." In **Cottage Savings Association v. Commissioner**, 499 U.S. 554 (1991), the Supreme Court held that exchanged properties are "materially different" when "their respective possessors enjoy legal entitlements that are different in kind or extent." The possessor of a work of art enjoys different legal entitlement than the possessor of another work of art. Each owner has a pecuniary interest in and is entitled to sell a unique piece of property. Therefore, trading art work for other art work is an exchange of materially different property.

The law then clearly sets forth that the amount received in exchange for inventory is income, up to the amount of the FMV of the asset received.

If the law is so clear, why is there a problem? One reason the galleries gave is that they have always done it this way. Their argument is that since they are being consistent in their treatment, they should be allowed to continue this way. They further argue that when the traded item is sold, the proper amount of income is reported.

However, the main reason given by the galleries is that FMV is difficult to determine. FMV is defined as the price to which a willing buyer and a willing seller will agree. Rather than determine FMV, the galleries would prefer to report no gain on the transaction other than boot received. This would defer all gain on the item until a later date. The issue, then, is timing.

One can surmise that an item would not be traded for less than that received if the item were sold. According to the gallery owners, this logical assumption is not always true. Sometimes they trade for an item and miscalculate what it is worth, resulting in a loss when they sell the new item. For example, an art gallery trades an item with a sales price of \$100,000, cost of \$50,000, for another piece of art. The newly acquired piece of art is valued at \$100,000. The art gallery must report a gain of \$50,000. However, the new piece of art may sell for only \$80,000. Because its basis would be \$100,000, the gallery has a loss of \$20,000, which is reported when the sale takes place. The gallery cannot treat the trade and the later sale as one transaction and only recognize gain, in excess of boot received, when the sale takes place.

INVENTORY

Inventory is usually the single largest item on the balance sheet. It takes up the majority of operating capital of the business. Most of the time a complete and accurate inventory is kept. However, this is not always the case. Variations are a result of purchasing a large amount of art work at one time from one person. No actual controls are placed on the purchase and therefore, no actual assignment of a cost per item. Normally this will show up by the books not tying out at year end. Since the cost per item is unknown, the gallery may pull too much cost or too little cost. It is a reasonable assumption that

the gallery will not write off too little. Since inventory is off, then something must be adjusted to correct the error. Many times it involves an income item.

Another way is for the taxpayer to place a percentage on the items sold during the year. The percentage is usually determined by the previous years cost of sales percentage. During the year, as items are sold, the costs are booked at that percentage. At year end when inventory is calculated, an adjustment is made to the COS. Since opening inventory, ending inventory, and purchases are known, the adjustment made to COS will be accurate. This is a good method for the accountant to use. It is a bit confusing at first, but in the end it does work itself out.

Unfortunately, since the examiner is not there to count inventory, he or she may be limited as to what can be done if there is an inventory problem. One way of solving an inventory problem is by not allowing an adjustment to affect the current year books. Most errors would be a prior period adjustment. If there is a tax effect, it would occur in a prior year.

Some gallery owners may value their inventories using the lower of cost or market (LCM) method. Under the LCM method, for normal goods under ordinary circumstances, the market value of an inventory item is replacement cost or the price at the date of inventory that the gallery owner would have to pay on the open market to purchase the item. See Treas. Reg. section 1.471-4(a)(1); **Thor Power Tool Co. v. Commissioner**, 439 U.S. 522, 534 (1979).

A gallery owner also may establish a "fair market price" for an item in inventory where no open market exists or where quotations are nominal, due to inactive market conditions. The gallery owner must substantiate this fair market price by providing objective evidence, such as specific purchases or sales of the item by the gallery owner or others in a reasonable volume and made in good faith. Where the gallery owner, in the regular course of business, has offered for sale the item at a price lower than the current price, the inventory may be valued at such a price, less the direct cost of disposition. The correctness of this price is determined by reference to actual sales of the item by the gallery owner for a reasonable period before and after the date of the inventory. See Treas. Reg. section 1.471-4(b); **Thor Power**, at 434-35.

Thus, in cases involving an open market, such as cases involving mass produced works, the gallery owner may establish the market price of an inventory item with a replacement cost. In cases where there is no open market or where quotations are nominal, due to inactive market conditions, such as "limited edition" works, the gallery owner may establish a market price for the work with objective evidence. This evidence should be specific purchases or sales of the work by the gallery owner or others. However, in cases involving a unique work of art, it will be extremely difficult for the gallery owner to establish a market price with objective evidence. For example, the gallery owner must offer the work for sale in the ordinary course of business and support the correctness of the fair market price by an actual sale within a reasonable

period after the date of the inventory. Absent such objective evidence, the proposed fair market price is disregarded.

Some art galleries donate art work which they own. The galleries will take a deduction for the amount donated. There are two concerns regarding this. The first is that the gallery should adjust cost of sales for the donation. If they don't, the art gallery will double deduct the item. The second area is the amount deducted as a charitable contribution. The amount deducted is equal to the basis of the art work not the FMV of the piece. This is true for both corporations and individuals. (However, if a dealer makes a charitable gift of artwork from a personal collection held for investment purposes, the dealer may deduct the fair market value of the piece. See, for example, **Williford v. Commissioner**, T.C. Memo, 1992-450.)

OTHER AREAS

The areas below are not necessarily unique to the art industry but appeared while the project was being conducted.

Corporate officers may be paid unreasonable compensation for the duties performed.

Another issue is personal travel. As mentioned in the pre-audit section, travel will often be a significant item. The gallery owners will have buying trips, selling trips, and art hunting trips. Be careful to note that only the owners, and not their family members expenses are deducted. These trips may be to vacation places such as Hawaii, California, Florida, or Colorado. As such, there is a potential that some of the expenses could be personal in nature.

"TRADING POST" ACQUISITIONS OF INVENTORY

Often "trading post" owners acquired merchandise from wholesalers. While tracing the purchases from costs of goods sold to the source payment documents (canceled checks) it was found the majority of the checks were cashed by the wholesalers. Further research of these taxpayers indicated no record of filing returns in some cases, and in others substantial unreported income was discovered from these transactions.

A "pattern" of unreported income developed. Commonly, these taxpayers were dealing with many of the trading posts located near the interstate highway system. There have been several civil fraud referrals developed from this approach.

EMERGING ISSUE

While the project was being developed, an issue emerged that may have substantial impact on the art world. This issue deals with nonresidents consigning goods in the United States. The goods are sold and the money is either sent back to the nonresident or to another third party. The question arose as to whether the gallery should withhold income tax on the nonresident artist. After research and consultation with the National Office, it was decided that this issue would not be pursued at this time. However, there is still an issue with the foreign artist. The income earned may be taxable. The examiner should obtain all the information available about the foreign artist and prepare a referral to International for assistance.

ART ADVISORY PANEL - IRM 42(16)4.1

The Commissioner maintains an Art Advisory Panel of nationally prominent art museum directors, curators, and art dealers to systematically aid the Service in the review of Service-selected cases involving taxpayer valuations on major art objects, principally - American and European paintings and sculpture.

The Art Valuation Group in the Engineering and Valuation Branch provides the staff support and coordination of the Panel's functions.

If the panel members, after individual study of the taxpayer's photography and other documentation, and after panel discussion, question the taxpayer's value, they will so indicate and typically recommend a specific valuation. Such recommendations are advisory only. However, after review by the National Office Art Valuation Group staff, such recommendations become the position of the Service.

For more information regarding referrals to this panel, please refer to the procedures outlined in IRM 42(16)4.1.

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GLOSSARY

Art Dealer -- A person who regularly deals in works of art either for their own account or for other artists usually on a commission basis where they agree to market the merchandise to others. An art dealer could be considered a "middleman" in the process of the disposition of a work of art from production by the artist to ultimate sale to the purchaser.

Art Gallery -- A room, series of rooms, a building, or other structure devoted to the exhibition of works of art. The type of art gallery referred to herein would be a retail or wholesale business establishment where works of art are placed for sale to customers in the ordinary course of a trade or business.

Artist -- A person who practices one of the fine arts, esp. painter or a sculptor. One who exhibits art in his work or makes art his employment. An artist is a person having superior skill(s) or ability or capable of a superior kind of workmanship. **The American College Dictionary.**

Consignment -- The act of placing an item with another for the purpose of resale for a profit. The artist or art collector will consign the art work to the gallery owner or trading post owner for resale. The artist does not pass title or receive payment usually until the item is sold or otherwise disposed of in the normal course of business. The usual consignment consists of an agreement (verbal or written) to "split" the proceeds on a 60-40 percent or 50-50 percent basis with the artist receiving the larger percentage.

Lay Away -- The process of selling an article and not passing title or giving up the merchandise until another payment is made or series of payments made over a period of time for the merchandise. Typically, an art gallery may lay away an item of art for a customer receiving a down payment (perhaps 25 percent of the purchase price) and holding the item until the balance of the purchase price is paid at some future agreed upon date and payment schedule.

Studio -- A place where an artist works in the process of creating a particular piece of artwork (painting, sculpture, etc.) This can be a leased facility, an apartment, a portion of the artists' residence, etc.)

Trade -- The process of giving up an item and receiving another or different item in exchange. In this situation, a trade is usually referring to the exchange between a gallery owner and a customer, dealer, or wholesaler who wants to exchange an item of art work for something the gallery owner has for sale in his gallery (such as a painting for a painting, a sculpture for a sculpture, a painting for a sculpture, etc.)

Trading Post -- A store for carrying on trade in an unsettled or thinly settled area. The typical trading posts are usually located on or near an Indian reservation or on the major traveled interstates or arteries that traverse a reservation. The store carries everything from staples to those hand crafted items which are the artistic creations of the Native American Indian (as found in Arizona and New Mexico).