

## April 13, 2004 Issue 319-2004

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### **In This Issue:**

1. Feature Paper - Small Business Can Use the Research and Experimental Tax Credit as a Competitive Weapon
2. Tip of the Week - NFIB National Small Business Poll: Competition
3. Call for Papers - UIC Research Symposium on Marketing and Entrepreneurship
3. Call for Papers - Association for Global Business
4. Call for Papers - Exploring New Frontiers in Marketing
5. Call for Papers – SMA 2004 Annual meeting
6. Call for Cases - Industrial Marketing Management Journal
7. Conference - 5th Annual Global Automotive Conference
8. Conference - Sharing Strategies for Success
9. Conference - EDA National Economic Development Conference
10. Conference - 49th ICSB World Conference
11. Announcement - Franchise Management Certificate Program

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### **Feature Paper**

#### **“Small Business Can Use the Research and Experimental Tax Credit as a Competitive Weapon”**

This paper was presented by J. Michael Alford, from The Citadel, at the 2004 Annual National SBI Entrepreneurship and Small Business Educators Conference on 12-14 February 2004 in Clearwater, FL.

#### **Introduction**

Competitive advantage is based upon a number of critical success factors related to the distinctive competencies of a firm. A study of small businesses found six distinctive competencies that lead to competitive advantage: (1) owner and employee ability, (2) a special or unique product, (3) customer service, (4) relative quality of product/service, (5) location, and (6) low cost and price [7]. As discussed below, certain provisions of the Tax Reform Act of 1986 were extended on a year-by-year basis until 1999 when it was extended until June 30, 2004 with some modifications [2]. Even if the Act is not extended beyond June 2004, the carry-back and carry-forward provisions provide an opportunity for the small business to improve competitive advantage in several of these areas. Although tax law is normally given consideration in many business decisions, there is little evidence that some important provisions of the Tax Reform Act of 1986 are used by small business in setting competitive strategy. Proper use of certain tax credit provisions of the Act may make some projects feasible which would be discarded without this consideration. These activities could lead to improved product quality, improved customer service, and lower cost. The combination of improved quality and lower costs gives a firm the strategic options of competing by offering higher quality at current prices, offering higher quality at lower prices, or in some cases of actually receiving higher prices for the higher quality. Additionally, some firms may already qualify for the carry-back and carry-forward provisions of the Act if relevant business activities are properly documented. The carry-back and carry-forward features make the use of the tax credits in calculating the cost of doing business well worth investigating.

Considerable attention has been given to many factors of competition a firm might employ when

attempting to achieve competitive advantage. Models have been developed which include consideration of the external environment in which government agencies are generally lumped together under the term "regulatory agencies." The case studies used as learning vehicles in the small business management courses often contain financial statements which are analyzed by students in their study of the cases. However, the impact of using tax law for strategic advantage has been ignored in the small business management texts except for the mention of taxation rules in determining the legal form of business. Quite likely this has occurred because tax law is an area considered to fall into one of the functional areas of the firm which is taken care of routinely in the conduct of business. The information presented in this paper will show that tax law is an important consideration in setting competitive strategy. As competition in both the industrial and service sectors becomes more severe, each firm must seek every legitimate means to increase its competitive advantage. This applies to setting long-run competitive strategies as well as to improving day-to-day operations. Certain provisions in the 1986 Tax Reform Act are designed to encourage research and innovation which lead to productivity and quality improvement. The tax credits allowed for these expenditures can create a financial benefit, which, in turn, should enable a small business organization to find or increase competitive advantages through lower operating costs. Presently, tax credits may be allowed for such diverse functions as product development, engineering, operations, personnel, finance, and marketing.

To read the entire paper on "Small Business Can Use the Research and Experimental Tax Credit as a Competitive Weapon", visit the SBANC Web Site at <http://www.sbaer.uca.edu/Research/2004/sbi/pdfs/04.pdf>

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## Tip of the Week

### “NFIB National Small Business Poll: Competition”

#### Executive Summary

- Small-business owners believe that they operate in highly competitive climates and that these climates are becoming increasingly competitive. Fifty-three (53) percent describe their current competitive climate as highly competitive. Twenty-eight (28) percent believe that it is competitive. Sixty-one (61) percent assess the current climate as much more or more competitive than it was just three years ago.
- Small businesses typically compete against a mix of large and small firms (57%). Twenty-eight (28) percent of small employers say that they compete principally against other small organizations and 13 percent say they compete principally against large ones.
- The location of most competition for small businesses is local. Forty-nine (49) percent of owners say that their principal competition is located within 10 miles of their business. Another 26 percent report it is located within 100 miles. Only 4 percent indicate that their greatest source of competition originates outside the United States.

- Large chains or box stores and foreign businesses can constitute competitive threats to smaller firms. Twelve (12) percent of small-business owners indicate that a box store or a large chain store is a significant competitor, though another 13 percent say that they are a marginal competitor. Meanwhile, 8 percent report that businesses outside the United States are significant competitors and 9 percent more say that they are marginal competitors. When given the opportunity, few small-business owners complain that either competes illegally or unethically.
- Governments and non-profit organizations such as universities, hospitals, and trade associations, also engage in commercial activities and potentially deprive small-business owners of customers and scales. Two percent report that government is a substantial competitor while 4 percent claim it is a marginal competitor. Two percent also report a significant competitive impact from non-profit organizations and another 6 percent claim a marginal impact.
- One in five (21%) small-business owners believes that a major competitor is competing illegally or unethically against him. The most frequent offending behavior is competitors not following the rules. For example, 8 percent of the 21 percent or about 2 percent of the population allege that a major competitor is violating copyright laws. A less frequent problem appears to involve unseemly, but amorphous behavior such as bad-mouthing another's firm. Virtually no one alleges such traditional anti-competitive practices as monopoly, price fixing, etc.
- Two ways of competing dominate small-business owner strategies. The first is highest possible quality and the second is better service. Over 80 percent insist that each is a major portion of the way that they attempt to compete.
- Less common ways of competing than quality and service are in order: minimal overhead, maximum use of technology, targeting missed or poorly served customers, more choices and selection, unique marketing, lower prices, expansion or growth, a superior location, new or previously unavailable goods and services, alliances or cooperation with another firm or firms, and franchising.

"NFIB National Small Business Poll: Competition" William J. Dennis, Jr. Series Editor, NFIB Research Foundation, Volume 3, Issue 8, 2003, page 1.

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## Call for Papers

**“UIC Research Symposium on Marketing and Entrepreneurship”**

The 2004 Symposium will take place 30 June – 2 July in Metz, France. Illustrative topics to be covered include: opportunity recognition, business intelligence in entrepreneurial marketing, international marketing and entrepreneurship interface, and innovation in marketing in SMEs, among others.

Submission Deadline: April 15, 2004

For more information on this conference, visit [http://www.uic.edu/cba/ies/upcoming\\_symposia.html](http://www.uic.edu/cba/ies/upcoming_symposia.html)

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**Call for Papers**

**"Association for Global Business"**

The Association for Global Business will hold its 16th International Conference on November 18-21, 2004 in sunny Cancun, Mexico at the Camino Real Cancun Resort. Global scholars and practitioners are invited to submit competitive papers on topics dealing with any business discipline.

Submission Deadline: June 1, 2004

For more information on this conference, visit <http://falcon.jmu.edu/~damanpfx>

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**Call for Papers**

**“Exploring New Frontiers in Marketing”**

The Marketing Management Association invites you to submit papers to the Spring National Conference to be held in conjunction with the Midwest Business Administration Association on March 16-18, 2005 at the Palmer House Hilton in Chicago, Illinois.

Submission Deadline: October 1, 2004

For more information on this conference, visit <http://www.mmaglobal.org>

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**Call for Papers**

**"SMA 2004 Annual Meeting"**

2004 Southern Management Association Meeting will be held on November 3-6, 2004. It will be

celebrating the 30<sup>th</sup> anniversary of the Journal of Management.

Submission Deadline: April 14, 2004

For more information on this conference, visit <http://www.southernmanagement.org/>

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## Call for Cases

### "Industrial Marketing Management Journal"

Industrial Marketing Management "Special Issue: On New Product Development In Asia" invites conceptual empirical and in-depth case study papers that focus on new product development in Asia for publication considerations in an upcoming special issue. Of particular interest are papers concerning development in Asia and the West. Papers can be in any area of new product development as long as the primary focus is Asia.

Submission Deadline: September 1, 2004

For more information on this conference, visit <http://personal.cityu.edu.hk/~mgozer/immcall.htm>

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## Conference

### "5th Annual Global Automotive Conference"

The Fifth Annual Global Automotive Conference will be held on April 19-20, 2004 at the Holiday University Plaza Hotel in Bowling Green, Kentucky, USA. The conference is designed to bring senior and middle managers together with practitioners to discuss emerging trends in the automotive industry.

For more information on this conference, visit <http://www.gac.ky.net>

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### "Sharing Strategies for Success"

This year HUD invites you to share strategies for success by participating in one of three valuable Regional Technical Assistance Workshops (RTAWs). These workshops will provide priceless opportunities to learn new skills, to meet fellow Neighborhood Networks center staff and property managers, and to determine what practices will work best in your program. HUD will conduct the three Sharing Strategies for Success RTAWs on April 21-23 in Memphis, Tennessee. The program and presentations will concentrate on best practices, trends, and issues specific to each part of the country.

For more information on this conference, visit

[http://www.hud.gov/offices/hsg/mfh/nw/nwnew\\_1208.cfm](http://www.hud.gov/offices/hsg/mfh/nw/nwnew_1208.cfm)

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## Conference

### "EDA National Economic Development Conference"

The 2004 National Economic Development Conference will be held on June 8-10, 2004 at the Omni Shoreham Hotel, Washington, D.C., U.S.A. The conference is sponsored by The Economic Development Administration and The Council on Competitiveness. The theme for this year's conference is "The Innovation Imperative - Translating Ideas into Regional Prosperity"

For more information on this conference, please visit <http://www.edanationalconference.com/>

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## Conference

### "49th ICSB World Conference"

SMME (Small, Medium and Micro Enterprises) Business People, Entrepreneurs, Academics, researchers, financiers, consultants, government officials, NGO's, policy makers and anybody with an interest in the ongoing strength of the SMME economic sector should not miss the 49th ICSB World Conference. It will be Hosted by the ICSB's Southern Africa affiliate SAESBA at the Sandton Convention Centre in Johannesburg, South Africa on June 20-23, 2004.

For more information on this conference, visit <http://www.icsb2004.com/>

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## Announcement

### "Franchise Management Certificate Program"

*Franchise Management Certificate Program: The Big Picture* is the first innovative program of its kind in the country. Twelve intensive sessions over two and a half days help provide a solid foundation for anyone interested in this vital, growing marketplace. Is franchising right for you? How do you pick the right one? How do you get started, raise capital, find a location, and hire the right people? How do you keep it going, deal with personnel, handle the marketing, and manage risk? Forty outstanding volunteers, franchise experts, and professionals in law, banking, real estate, accounting, risk management, marketing, and other fields help answer these and other questions, giving you the tools you need to make informed decisions. The next Franchise Management Certificate Program 2 ½ Day Seminar will be held April 22-24, 2004 at the Camino Real Hotel, El Paso, Texas.

For more information please visit <http://www.utep.edu/fc>

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If you have any comments about the SBANC Newsletter, or if you know of an upcoming Small Business event to promote, please contact Lester W. Clements II at [lestclem@hotmail.com](mailto:lestclem@hotmail.com)

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The SBANC Newsletter is provided as a service to the members of our affiliates: **Academy of Collegiate Marketing Educators (ACME), Association for Small Business & Entrepreneurship (ASBE), Decision Sciences Institute (DSI), Federation of Business Disciplines (FBD), International Council for Small Business Congress (ICSB), Institute for Supply Management, The International Small Business Congress (ISBC), Marketing Management Association (MMA), Small Business Administration (SBA), Service Corps of Retired Executives, Small Business Institute (SBI), Society for Marketing Advances (SMA), United States Association for Small Business & Entrepreneurship (USASBE), U.S. Department of Veterans Affairs and Western Decision Sciences Institute (WDSI).** If you are interested in membership or would like further information on one of our affiliates, please see our web site at <http://www.sbaer.uca.edu>

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## **SBANC Staff**

Main Office Phone: (501) 450-5300

**Dr. Don B. Bradley III** - Executive Director of SBANC & Professor of Marketing

Direct Phone: (501) 450-5345 ---- E-mail: [donb@uca.edu](mailto:donb@uca.edu)

Lester W. Clements II - Webmaster - E-mail: [lestclem@hotmail.com](mailto:lestclem@hotmail.com)

Chris Escamilla - Student Intern - E-mail: [chrisesc@hotmail.com](mailto:chrisesc@hotmail.com)

Zichuan Li - International Student Intern - E-mail: [michael\\_lzc@hotmail.com](mailto:michael_lzc@hotmail.com)

Esther Mead - Student Intern - E-mail: [estherledelle@yahoo.com](mailto:estherledelle@yahoo.com)

Kai Roth - International Student Intern - E-mail: [KHR007@gmx.de](mailto:KHR007@gmx.de)

Ying Zheng - International Student Intern - E-mail: [zhengying\\_a@hotmail.com](mailto:zhengying_a@hotmail.com)

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To subscribe or unsubscribe to the SBANC Newsletter, please E-mail Lester W. Clements II  
at [lestclem@hotmail.com](mailto:lestclem@hotmail.com)