Planning vital when looking to branch out:[Chicagoland Final , CN Edition]

Ann Meyer, Special to the Tribune Ann Meyer is a Chicago. **Chicago Tribune**. Chicago, Ill.: Sep 15, 2003. pg. 3

Abstract (Article Summary)

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Full Text (1127 words)

YOUR BUSINESS.

Like many entrepreneurs, Annette Ricci started her business three years ago believing she could outperform the competition.

A lifelong problem solver, Ricci poured her expertise in product development and customer relations into Design & Deliver. The Lake Forest-based firm, specializing in developing promotional products for consumer-oriented companies, strives to give clients more than they expect, Ricci said.

Its cookie jar for Keebler went over so well, for example, that the bakery sold the collectible to the public on Home Shopping Network. And when Maytag Corp. asked Design & Deliver for a standard plush toy to go along with its "Alien" TV commercial, the firm added bendable arms, legs and antennae that wowed the client and its customers, Ricci said.

As chief executive, Ricci was set--until a client's request turned into something bigger than she ever imagined. As entrepreneurs of all stripes can vouch, opportunity often knocks when you're least expecting it. In this case, Ricci uncovered the seed for a new product line.

The idea seemed a sure winner, but the question became, how to build on that opportunity? Should Ricci expand her business to include the new venture or launch an entirely new company? And could she effectively manage both?

These are questions many small-business owners confront as they explore growth opportunities, experts say. Although many entrepreneurs are inclined to keep everything under one roof, that comfort-zone approach is not always the best maneuver.

Deciding whether to expand or separate requires evaluating a host of issues--legal, financial, strategic and administrative.

Ultimately, it depends on how well the new opportunity fits into your existing company, experts say. Will you be targeting the same market? Will your existing brand work with the new venture? Will your employee pool be the same for both? Can you share your existing facilities?

These are questions that should be addressed early because your initial decision could have tax implications for years, said Rich Salter, tax partner with Gleeson, Sklar, Sawyers & Cumpata LLP in Elgin.

"One of the problems is thinking about it soon enough as you're off into this other venture," he said, because the structure may affect how you deduct start-up costs. You will want to discuss with your accountant the pros and cons of establishing the new company as an "S," "C" or limited liability corporation.

But generally, when deciding how to structure a new venture, tax issues are secondary to legal considerations and general business strategy.

"You need to consider where are the businesses today, and where do you see them going in the future," Salter said.

Starting separate company

Creating a separate legal entity when there is no good reason to do so "tends to confuse things down the road and rarely accomplishes much," he said.

But if the new venture will move your company into a different industry or marketplace and require it to take on a new risk, you are often better off establishing a separate company.

The issue arose for Ricci a year ago when an advertising firm she had worked with asked her to help solve a problem for its client, Walgreen Co.

The drugstore chain needed a quick and easy way for its workers to hang signs from store ceilings. Could she come up with something?

Ricci agreed to meet with Walgreens, and she concluded the task was doable. She and her team of designers soon had an idea for a retractable pull-down device that would eliminate the need to climb a ladder to post or change ceiling signs.

The next step was prototype. Typically, Design & Deliver's clients pay all development costs. But that was further than Walgreens was willing to go, Ricci said.

Meanwhile, Ricci's market research showed Walgreens was not the only retailer looking for an easier way to hang ceiling signs. So instead of abandoning the project, she decided to plunge ahead, with plans to not only develop and manufacture the device but also market and distribute it.

On advice from her accountant, the new venture took shape as a separate company called Reel EZ Display Inc.

When a new venture involves a significant investment, separating it as a distinct business entity has advantages, said Ricci's accountant, Robert C. Brown of Lake Forest.

Ricci estimates start-up costs for Reel EZ Display at about $300,000.

Separating the two enterprises is important from a liability standpoint, said Paul Schofield, a lawyer with Siebel, Schofield & Varde in Chicago.

"You don't want to put your original business at risk. By forming a second company, you have the protection of limited liability," he said. That way, if the new venture fails, "you can salvage your original business."

And if the new company proves successful, you might want to sell it at some point, Brown said. Establishing a separate firm facilitates that. The fact that Reel EZ Display has a potentially revenue-generating patent makes the separation particularly prudent.

Stretching too thin

You also will need to consider how to manage the new venture along with your existing business so that you don't stretch yourself too thin. Generally, a separate business enterprise calls for a separate management team.

That is the route Ricci thought she would take until she realized she needed to be the one to get the new company off the ground.

"It's a challenge," she acknowledges. "I thought I could put more of the day-to-day work of Reel EZ in other people's hands. But other people didn't have the same vision I did and didn't understand the product like I do."

At the same time, Ricci is not willing to let go of Design & Deliver, which she says generates several million dollars in revenue annually.

"Creating new products every day is what I enjoy doing," she said, noting that her "personal touch" has been a large part of the company's success.

But over the long term, heading up two companies can be an onerous task. Joseph Jarzembowski, president of TimePilot Corp., a Batavia-based manufacturer of automated time and attendance products for small companies, found himself doing just that last year.

He was in the process of selling his previous firm, ClearLearning.com, when he started up TimePilot. But the sale took longer than expected, leaving Jarzembowski no choice but to run two distinct companies.

"I wouldn't recommend it to anyone, even my worst enemy," he said. "I don't know anyone who has done it successfully, or purposely, except for during a very short period of time. How can you serve two masters?"

Still, those who know Ricci laud her organizational skills. If anyone can head up two companies, Ricci can, said Brown. "No problem- -she absolutely can do both. She is very creative, and also one who gets things done on time and properly."

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