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### TWO WEEKS IN EL SALVADOR

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## DULY QUOTED

*"To succeed as a team is to hold all of the members accountable for their expertise"...*

- Mitchell Caplan

## WISH WE SAID IT

*"Designing your product for monetization first, and people second will probably leave you with neither"...*

- Tara Hunt

## THOUGHT OF THE MONTH

### Choosing Right

The old expression that you are the company you keep is one of those sayings that young people hate to hear, and older people hate learning is absolutely true. Expanded into the business world, the idea that the people around you make up the core competency of your company is all too often learned the hard way.

It is easy to overlook someone's faults. In fact, for most of our lives we are taught that no one is perfect and that seeing beyond someone's weaknesses is the right thing to do. Yet, when applied to business, it all too often means the delay of a major unpleasant event, as the cumulative consequences of the overlooked flaws builds up into one big mess up.

There are so many points of contact with other people during the course of regular business that the selection of the right people becomes all the more critical, as the compounded damage of multiple poor choices can be disastrous.

The people we hire need to execute the tasks we entrust to them diligently and with great respect for the importance of their contribution to the overall wellbeing of our enterprise. The people we partner with need to carry their weight and fulfill their part of the equation so that the totality of our joint mission can be fully executed. The people we market through need to deliver on their promise for exposure and timely contact with the market. And the people we sell to need to communicate back to us their satisfaction levels and needs, so that we can continue to serve them and count on them as loyal customers.

The dependency we all have on others makes the need to choose right even more critical. Any weakness in the human chain can cause a breakdown in the entire process, both because there can be a halt in total performance, and because one weakness can lead others in the chain to become disgruntled.

The issue is about more than human resources. It is about trust and the need we have to place part of our good fortune into the hands of people we think we know, hope we can trust, and must rely upon.

It's so much easier when you choose right.





## TWO WEEKS IN EL SALVADOR

By Craig R. Frank

They call themselves Wanakos, a llama-like animal indigenous to the Andes. While not known for its intelligence, it is known for its stubborn hard work, and the El Salvadorians I am meeting are nothing if not proud of their work ethic. They are quick to point out that only 2 years after a devastating earthquake in 2001 the more than 100 villages and towns destroyed were completely rebuilt. This reconstruction, a symbol of their diligence, also shows that they are not people who wait around for things to get done. They are people who do what they have to in order to make sure the things they want happen. They are not waiting around for opportunities to come to them, but rather are extremely entrepreneurial and are determined to affect change. In my view, the prospects for their success are outstanding.

With the shadows of a particularly nasty civil war hanging over their efforts to attract foreign capital (even though there has been peace and stability for more than 10 years), and a still less than perfect rate of compliance of laws (there are still gangs and violence in certain areas) restricting the entry of some foreign companies, the El Salvadorian people (the wanakos) have taken matters into their own hands and are building their economy the old fashioned way – with local entrepreneurs.

I am here in El Salvador for a two week assignment as part of the Farmer to Farmer project funded by USAID. Administered by the Winrock Foundation in Arkansas and coordinated by Florida International University, the program matches expertise from the United States with organizations in developing countries. I am here as a volunteer, but somehow I get the feeling I am getting a lot more than I am giving.

While it may be true that I am in a position to share ideas, experiences and perceptions that they find helpful, so too is it true that their optimism, enthusiasm, dedication, and appreciation are uplifting and serve to restore some vigor and bounce in my weary bones. Doing business in the United States may bring out some less than positive tendencies in me. Being here restores my faith in the purity of the business concept and the worthiness of its pursuit.

Here in El Salvador I once again find my impressed with the determination of the people, the ingenuity of the young, and the ambition of the professionals. The country is small and their resources are limited. Yet they are commerce oriented and proud of their reputation for savvy business sense.

The core of my activities here revolve around a fantastic program initiated 5 years ago by a coalition of NGOs called ETI – an acronym for the Spanish words that mean Launch Your Idea. A business plan competition that not only judges submitted plans, the 8 month program teaches entrepreneurs how to write a business plan, how to launch their companies, and how to sustain them. The key to the program is the small stipend of seed capital awarded to the top winners.

My first days here were spent visiting last year's winners – a horse farm with a park and restaurant, a butterfly park for the elderly and handicapped, and a biodiesel startup. In each case the entrepreneur was impressive not only in his/her vision, but also in the way they allocated their winnings and how they are actively and aggressively implementing their business plan. Each project was aware of their need for planning, multiple revenue streams, good management, visible marketing, incentive driven sales, and the maintenance of quality.

In addition to my field trip I have been lecturing for NGOs, including Technoserve, a Washington based organization with offices in many developing countries, and CoExport, the national association of exporters, as well as at some local universities. Each lecture was constructed based on specific questions presented to me prior to the talk, because the organizers wanted to make sure that I provided them with information they were most interested (and perhaps in need) of receiving. This too impressed me, as they seem to be very focused on what they want and very intent on getting it. This dedication is a great example of the professionalism of the people and the seriousness with which they take their task. They want to improve the quality of the services they are offering entrepreneurs and they want to be sure that their emerging business leaders are armed with the skills necessary to effectively compete and succeed.

For the past 3 years I have been visiting Central America, completing 6 assignments for Farmer to Farmer and working with Tudog clients in Guatemala, Honduras and Costa Rica. Tudog now has active investments in Guatemala (biodiesel) and Costa Rica (Noni) and will most likely complete an investment in Honduras (biodiesel) in the coming months. We made these investments because we believe in the viability of each country's economy and we were impressed with the opportunities available. And while our involvement has not been devoid of challenges, we have found that the pound of flesh required is worth the pound of gold to be gained.

With our activities in neighboring countries in mind, I find myself excited by the prospect of doing business in El Salvador. The opportunities here are as appealing as elsewhere in the region, and the quality of human resources is exemplary. The pride in a strong work ethic, the thirst for know-how, the openness to new ideas, and the dedication to success all make El Salvador a perfect fit for American and regional businesses seeking to include this small but ambitious nation in their network of operations.

So while I have not yet even finished my two week stay here in El Salvador, I can enthusiastically report that this is a nation of hard workers, business oriented people, and alternative thinkers. They may be wanakos, but they are as smart as they come.

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Craig Frank is a Managing Partner of The Tudog Group.



## UNDERSTANDING REVERSE MERGERS

By Neil Swartz

The reverse merger is one of the most misunderstood instruments in the financial sector. At TDG Capital, the merchant banking arm of The Tudog Group, we view reverse mergers as one possible path to bringing a company public on the microcap markets, and using the event to recruit additional capital for the company.

In our view the microcap markets are the venture capital market for the average investor. With entry investments in traditional investment funds and venture capital funds at sometimes more than \$100,000, the average investor is locked out of emerging and growth business opportunities. The remedy for this is a willingness to consider the opportunities presented by some promising microcap companies.

The microcap exchanges have many lemons, and because of them the entire listings on the Pink Sheet and OTC exchanges are subject to suspicion and initial resistance. But like any high risk – high reward investment strategy, these exchanges can work well if you pick the companies carefully and are comfortable with a win some – lose some philosophy (the idea, of course, being that the ones you win more than make up for the ones you lose). This win some – lose some, actually, is the strategy taken by every venture capital group because they know that many of their investments will fail or not make money, but that the ones that do succeed will drive sufficient return for all the others.

The reverse merger is a method of bringing a company public through an alternative route, placing upon it all the benefits and responsibilities of a publicly traded company. This article explains the process and benefits in detail.

### *Defining Reverse Merger*

A reverse merger is a financial transaction that results in a privately held company becoming a publicly held company without having to go the traditional route of filing a prospectus and undertaking an initial public offering (IPO). The Reverse Merger is accomplished by the shareholders of the private company selling all of their shares to the public company in exchange for shares of the public company.

Technically this transaction is a merger of the private company into the public company. It is called a reverse merger because the public company involved is typically a "shell" or a non-active company with no operations and no assets (just the legal and organizational structure), which issues a sufficient number of shares to the shareholders of the private company so that they end up controlling the public company. So while the public company "bought" the private company, the shareholders of the private company end up in control of the company, which they then place their operations and assets into, resulting in the private company now being a public one.

### *Process*

In a reverse merger, as long as the shell is an SEC-registered company, the private company does not need to go through a review with state and federal regulators (which can be expensive and time consuming) because this process was completed beforehand with the public company.

The process requires that the private and shell company exchange information on each other, negotiate the terms of their merger, and sign a share exchange agreement. At the closing, the shell company issues a substantial majority of its shares and board control to the shareholders of the private company. The private company's shareholders pay for the shell company either by placing their shares in the private company into the shell company (which they now control), or, in some case also by paying an agreed upon sum of money to the public companies shareholders. This exchange and change of control completes the reverse merger, and the formerly privately held company would now be a publicly held one trading on the exchange on which the previous company was trading.

### *Benefits*

There are a number of advantages to being a publicly traded company. These include:

- The possibility of being able to command a higher price for the company's securities in a subsequent offering.
- A reverse merger separates out the capital recruitment component of an IPO. This means the company can go public without necessarily raising funds simultaneously. For small companies the ability to separate the two is sometimes highly advantageous.
- The Company can go public regardless of current market conditions. The deal is completely dependant on the two companies merging and not the timing of the merger with regard to the state and mood of the public markets.
- A reverse merger can be fully executed within a matter of months, whereas a conventional IPO can take a year or more.
- A conventional IPO can be very costly, with legal, accounting and investment banking fees adding up. A reverse merger can be completed at a significantly less cost.
- Being publicly traded may allow the company to acquire other companies through stock transactions, meaning that an acquisition is completed without the need for capital but rather through an exchange of shares.
- The company's stock may serve as an attractive incentive to recruit high quality executives and retain valuable employees.

### *Future Financing*

Perhaps the most apparent benefit of the reverse merger is the number of financing options that become available to the company once it is publicly held. Depending on how these capital raises are structured, the company can ensure for itself a consistent flow of capital as it is required to fund operations and growth. These options include:

- The issuance of additional stock in a secondary offering.
- The exercise of warrants, which granted stockholders the right to purchase additional shares in a company at predetermined prices. When the warrants come due and many shareholders opt to exercise their rights, the company receives additional capital.
- The liquidity of the stock may make an investment in the company attractive to private investors.

A reverse merger is not right for every situation and there are many credible reasons to be cautious and careful. It is important to select the right shell and understand why the shell company's initial business did not succeed. It is critical to research the shell for any liabilities that may carry over to the new company. The need for an excellent attorney and studious accounting group cannot be overstated.

Nonetheless, in circumstances where the company is right and the shell is clean, a reverse merger can serve to significantly accelerate a company's growth, provide it with the tools to raise necessary capital, and provide all shareholders with an eventual exit. For these reasons Tudog always looks at the viability of the reverse merger as one of the strategies to be considered when developing a growth plan.

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Neil is a Managing Partner of The Tudog Group.



## UNDERSTANDING MERGERS & ACQUISITIONS

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By David Gilad

One of the key indicators of a healthy economy is an active M&A sector, because they are powerful economic drivers that create opportunity and spur growth. The complexities of the M&A event has caused some confusion about who benefits and how they are successfully executed.

This article is a general overview of merger and acquisitions, written to provide an understanding of the processes that make a merger or acquisition worthwhile and successful. In reviewing the triumphs and challenges associated with M&As, it becomes apparent why they are worthwhile business endeavors and why they should be promoted, particularly in developing economies.

### **Why M&A?**

The most compelling reason a company considers a merger or acquisition is to achieve growth – revenue, market share, and valuation – in way that overcomes market forces that may be acting as inhibitors. By merging with or acquiring an existing company the new reality is one of the combined assets of the two enterprises, rendering the initiating party a more substantial force almost immediately.

In many cases the urge for M&A comes from a desire to secure an asset of market based capability that the acquiring company currently lacks, whether it is in product, logistical capabilities, or proprietary technologies. Sometimes an M&A is executed because one company seeks to eliminate the competitive challenge of the other by incorporating into its operations the competitive threat – transforming it into an asset. Similarly, there are times when the M&A pursued to deprive a competitor of a critical asset.

Finally, M&As are sometimes driven by a company's quest for "synergy", that is that the company seeks to acquire or merge with the companies that enable or enhance its core offerings. Therefore manufacturers sometimes seek to acquire distributors so they can better control their logistics, or large technology companies will seek to own content companies so they can match their capabilities at broadcasting with the content they've acquired.

While all of the reasons for M&A are sound and logical, not all of them are practical. The success of the M&A lies in its preparation and implementation.

The elements for a successful M&A are:

**1. Conducting Due Diligence** – it is critically important that all the necessary due diligence be conducted on the micro level, meaning that every detail be sought and uncovered and that no absence of crucial information be either explained away or minimized as no reason to hold up the process. All information – legal structure, financial data, customer base, operational history, current status, and so on – need to be thoroughly investigated so that there are no hidden liabilities or exaggerated understandings. The purpose of the due diligence is first to seek to uncover any reasons the deal should not go through, and second to make certain that the reasons the deal is going through are based on fact and not merely representations.

**2. Identifying Risk Factors** - another key cautionary step is the in-depth identification of all risk factors. The risk factors should be divided up into segments, such as technology risks, market risks, human resource risks, social risks, political risks and operational risks. The need here is to test the underlying rationale for the merger or acquisition against the potential risks to make certain that, when all the risks have been considered, the logic of the move still prevails.

**3. Integrating Organizational Cultures** – one of the most demanding tasks for implementing a successful merger is the integration of the organizational structures of the two uniting companies. The inability for the two groups to find a way to adjust to each other's ways of doing business can negate the reasons for the merger and leave the united companies actually functioning as two separate entities. This can serve to doom the merger. Therefore, one of the most important aspects of the negotiations needs to be a review of current operational processes and organizational cultures and an agreement on the predominant way things will work moving forward (after the merger).

**4. The Importance of Human Resources** – another danger zone for the M&A is human resources. Often there is a dominant party to the merger and this party may seek to retain its core team after the merger, even if its people aren't the most qualified. It is typical after a merger for the two sides to cut some employees as they eliminate redundancy and combine operations. The key to success is avoiding the politics of the merger and selecting, in every instance, the best person for the job, regardless of which of the two merger companies he/she previously worked with. Now, the individual works for the combined, merged entity.

**5. The Management of Change** – the inevitable result of a merger is the introduction of change into the organization. The manner with which this change is managed can make the difference between a successful merger and one that either never really takes effect or ultimately disintegrates. There is a need to approach the change carefully and make certain that the stakeholders and the critical people are in agreement with the plan and dedicate themselves to its implementation.

**6. Creating Integration Teams** – the pressures from the management of change, the preservation of critical human resources, and the integration of the two cultures can be eased through the creation of joint integration forces with representatives from both companies. The mandate of the teams would be to reach consensus on the issues each

are assigned to resolve, which should focus on operations, culture, human resources, marketing, sales, management, and the processes and procedures that will regulate the merged entity's sustainable operation.

**7. The M&A Structure** – the very structure of the merger or acquisition can also lend to a lessening of potential points of conflict. If the agreement clearly defines a lead player, or allows for the definition of rules in the post merger environment, the structure will serve to ease integration.

**8. Using Measurement Mechanisms** – as with every implementation of a results oriented task there is the need to make certain that outcomes are in line with the expectations. The use of mechanisms to measure the progress of the merging entities is critical so that any breakdown in the system that is causing a delay or presenting an overall danger can be swiftly identified and addressed. Without the ability to measure progress the delays could go unnoticed or improperly explained (or justified), leaving the overall health of the merger in danger.

M&As are an excellent instrument for the growth of an enterprise and offers, in many cases, an accelerated path to a longer term business objective. The pitfall to the M&A is the risk of it being poorly executed, leaving the desired results (and driving motivations) unfulfilled (while often leaving the initial entities weaker than they were prior to the merger). The M&A should be initiated only when both sides are clear with regard to what they hope to achieve and are in agreement that the merger or acquisition delivers to them the prospect of meeting their goals. With that initial consensus in place, and the use of the 8 cautionary steps discussed in this article, the M&A can be a beautiful thing.

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David Gilad serves on Tudog's Board of Directors



## SUCCESSFUL COLD CALLING TECHNIQUES

By Ilan Sarid

Cold calling is right up there with dental surgery and a colonoscopy for most salespeople something to avoid unless absolutely necessary. There is almost nothing worse than knocking on a door of someone who has never displayed any curiosity in your product/service and seeing whether or not you can muster up enough interest (as opposed to manners or patience) to present your benefits. Yet, just because someone doesn't know they want or need what you're selling doesn't mean they don't. It only means that they have yet to be exposed to your product/service, and that your cold call is an opportunity to give them the chance to see what you have to offer.

Cold calling doesn't need to be as uncomfortable as it is. Besides from being a necessary evil in order to supplement opportunities identified from lead generation tactics, it is also a proven method of generating sales. So what are the techniques for successful cold calling? Tudog has a few thoughts:

- 1. Discipline is Key** – cold calling won't work if you won't do it. Sort of an obvious point to make perhaps, but one that somehow seems to pass over the logic we often employ when making excuses to get out of something we don't like to do. You need to be disciplined in your approach to cold calling, giving some time each day to prospect and see where interest may lie.
- 2. Prepare** - lots of salespeople think that cold calling is the same as coming in blind. Just because the person doesn't know you plan on stopping by doesn't mean you have to make it look like you didn't know it either. You need to prepare for the cold call meeting just as you would the meeting originated from the lead generation tactic. Make sure you know who you are talking to and why your product/service may be useful to them. Sure the cold calling isn't qualified and the chances are lower. But if you treat the meeting like you have no chance of making a sale, you'll be absolutely right.
- 3. Have Thick Skin** – when cold calling over the phone don't be too sensitive when people hang up on you or refuse to give you the chance to get even the highlights of your message across. If you get offended or easily discouraged you will find it hard to muster the perseverance necessary to stick it out and won't be around when the true buyer comes along.

4. **Shoot for the Top** – when calling on a large organization, always call on someone who is a bit more important than the person you need to get the decision made. If this person is able to understand the value of your product/service then you will have an immediate in to the lower level person who actually makes the decision.

5. **Be the Early Bird** – if you are making cold telephone calls, make them early, before work hours. This increases your chances of by-passing the secretary and getting the person you actually want to speak with on the phone. Just make sure your initial comments are simple, concise and communicate everything you need him/her to know. Similarly, keep in mind that you do not want to call early Monday morning when the person is getting his/her weekly plan in order, or on a Friday morning when the person is already thinking of the weekend ahead.

6. **Keep Your Purpose in Mind** – remember, cold calls, whether by phone, email or in person, are never intended to cut an immediate sale, but rather to get the person sufficiently interested on hearing more so that the sale process can begin. If you come on too strong or try to rush to the sale people will feel pressured and disengage from the conversation.

7. **Court the Secretary** – if you are viewing the secretary as the obstacle preventing you from speaking with the person you are targeting and are either impolite or impatient, you will find yourself blacklisted and forever unable to get through. The secretary is the gatekeeper and you are always friendly and playful with the gatekeeper. The more he/she likes you, the better the chances he/she will one day let your call get through.

8. **Consider Speaking to the Person an Honor** – if you believe you have the right to talk to someone then you are already communicating from the wrong position. If someone you are calling or visiting unexpectedly is willing to give you some of his/her time, you should consider this an honor and demonstrate your gratitude by being quick, simple and to the point. Your goal should be to earn the right to meet the individual again so that you will be able to engage in a more in-depth and meaningful sales encounter.

9. **Believe in Yourself** – confidence and success in sales can't be overstated. You have to believe in yourself and in what you are selling. This confidence is visible and will be responded to by prospects willing to hear more, if for no other reason than to see what it is you are so sure about. Cold calling can wear away at confidence. It is hard being told "no" all the time and takes a strong spine to be able to stand up to it. Your faith in your abilities and in the true value of what you are selling should be enough to get you by.

10. **Just Do It** – the cold call is one of those "just do it" sort of activities. You do not know how it is going to end, but you know that you need to get it going. The best way is to just jump into it and see where it takes you.

Most salespeople prefer to work off qualified lead lists. Why shouldn't they? The list has taken a good portion of the guesswork out of the equation and has left the salesperson with a greater probability of making the sale. While wanting to eliminate the risks is an understandable desire, the idea that you can completely avoid cold calls is illusory. Cold calls are part of sales. Get used to it. And get to it.

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Ilan Sarid specializes in sales. He resides in Montreal, Canada



## THE TUDOG TRAINING MODULES

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By Leisy Melian

Tudog has recently launched its much anticipated Training Division after having been developing the models and tools during the past three years of engagement in training programs in Central America. In preparing our models and developing our materials we have sort to focus on the practical need for how-to information, avoiding some of the more academic approaches to knowledge transfer. Our training programs are designed to give the participants the underlying logical reasoning, the process for implementation, the mechanisms for implementation, the tools for review and analysis, and the capacity to monitor execution.

The Tudog training models provide the knowledge and operational processes necessary to instigate change and sustain higher levels of performance. The tools serve to transmit information in practical ways that are integrated into the operations of the company, while also immediately demonstrating value and results. The Tudog tools are:

1. **Capital Administration Tool (CAT)** – includes monitoring and controlling of costs and the allocation of resources to maintain operational standards. This tool enables companies to understand the financial aspects of their business, manage the all the variable and fixed costs of operations, and secure profitability.
2. **Idea Generation Application (IGA)** – includes creative and practical tactics for the generation and evaluation of ideas using market data, channels, communications, entrepreneurship skills, management criteria, organizational factors, costs, and other operational imperatives as guidelines. This tool enables the development of operational and marketing concepts and the planning, feasibility evaluation, and execution of viable ideas.
3. **Marketing Assessment Tool (MAT)** – includes methods for gaining access to market intelligence and tools for analysis, tactical development of marketing strategies and compatible tactics, implementation guidelines and the parameters for monitoring and adjustment. The Tudog Marketing Paradigm is comprised of 5 components; Intelligence: the collection of reliable data providing a precise overview of the market and its players, Strategy: the formation of a well conceived strategy based on the information available, Tactics: the development of tactics designed to fulfill the mission formed as the core strategy, Implementation: the execution of the comprehensive, integrated tactics formulated, and Monitoring and Adjustment: the tracking of performance and the adjustment of the marketing program to emphasize tactics that are demonstrating

results. This tool enables the identification of key advantages (distinctive competences) and the creation, evaluation and implementation of a comprehensive, integrated marketing program focused around the core benefits of the company's product or service. The model includes the formation of marketing program options, communications, channel deployment, and measurement.

4. **Partnership Acquisition Tool (PAT)** – includes recognizing strategic partnership needs and opportunities, improved negotiation skills, agreement conclusion processes, and implementation and monitoring mechanisms. This tool enables the development of strategic partnerships for the purposes of efficiency, improved competitiveness, capital recruitment, and other strategic objectives.

5. **Operations Sustainability Tool (OST)** – includes standardizing and embedding best practices and operations for prolonged profitability. The tool includes operational guidelines for technology integration, intelligence gathering, logistics, competitive practices, growth management, and operational administration. This tool enables the creation and embedding of processes (according to operational needs) that establish stability, consistency of operations, and profitability.

6. **Capital Recruitment Tool (CRT)** – includes the process of preparing for funding, identifying potential sources of funding, and gaining access to targeted sources. The Tudog model is comprised of four components – Access: an overview of the company and its potential liabilities, Repair: a process of fixing the problems to improve chances for funding, Prepare: the creation of the documents and financial projections needed to secure funding, and Approach: the selection of viable funding options and the submission of funding documents and request. This tool enables companies to structure their businesses so as to meet the investment or lending criteria of capital sources, including financial, operational, and marketing documents.

The Tudog training modules are designed to illustrate a reliable, replicable, and sustainable series of business processes that, when combined, amount to a collective set of best practices for small and medium sized enterprises. The dedication to real-world business issues and the emphasis on pre-empting, bypassing or eliminating common business challenges makes these set of business models ideal for training start-ups, emerging enterprises and small growing companies.

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Leisy Melian is Tudog's Director of Training.