

Setting up your own business

By

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The average sale value of an SME in the UK is £3 million

There are 5.6 million SME's in the UK and millions worldwide. Whilst I will focus on UK data the issues faced by people setting up on their own are the same all over the world.

Many executives take the plunge and decide to set up on their own, for all sorts of reasons, not least of all the desire for independence.

With the experience of the last year and the continuing issues surrounding the pandemic, many more will do so now.

So, whilst the average sale value in the UK is £3 million, it's also true that 600,000 companies close every year.

We are going to cover the following subjects in the next 30 minutes

- How to Capitalise the Business
- Ownership and Control of the Company
- Shareholder and Management Agreement
- Customer Management
- Staffing Issues
- Managing the Cashflow
- Creating an Entrepreneurial Climate

Capitalising the Business

46% of SME's have problems raising finance

Alternatives

Use Own Money but in what way?

Need to get more money than available to me.

- Family and Friends
- Banks
- Crowdfunding
- Seed capital
- Angels

Too many operate on a shoestring leading to long term problems

Funding route will influence corporate structure

Ownership and Control

60% of new companies fail within the first three years

The alternatives include sole trader, partnership, limited company but this will depend on acceptance of risk, the need for money and the equity participation others will have.

The need to control the future starts from the very beginning and impacts decisions such as split between equity and capital, having buy back arrangements, different categories of shares and ability to issue more shares.

Best dealt with in a shareholder agreement which cover issues such as the transfer of shares, dispute resolution, legally binding clauses and the dividend policy to be pursued. With a shareholders agreement in place there may also be a need for a management agreement.

The Management Agreement

SME's employing 50+ staff earn an average of £294,000 profit pa

This must have legal force to avoid problems in the future

Best to agree who does what for the company, establishing primary responsibility and processes for having/gaining authority

It should be clear on salaries and fees for key players both at the start and how they will be changed in the future.

This is the best way of ensuring disputes are handled effectively when they arise and in the least disruptive way.

Customer Dependency

79% of SME's Have difficulty attracting customers

When starting up always be mindful of the problem of customer dependency. It's never good to have more than 12% of turnover with one customer. This may be necessary at start up but a plan needs to be in place to gain new customers as soon as possible.

Some ways of developing include looking for customers who are similar to the ones you already have or look at who your competitors are selling to or using testimonials from your existing customer base.

It's also worth looking at other sectors that are tangential to the one in which you operate in today. Of course it's also possible to take the product/service in to other geographies either within your own country or in another country.

Not every customer is good for you. Best to assess every customer by your earnings capacity, the strategic fit and growth potential.

Staffing Issues

51% of SME's can't maintain Profitability which often comes from staffing related problems

You need to decide on the number and responsibility of staff. It's not like managing inside a company as an executive. Do you need permanent staff, can they do more than one role, what about sub-contracting some activity?

Be honest about whether you can really afford the staff. You may need to defer for cashflow reasons and double up on roles carried by existing staff.

As an entrepreneur it's best not to have too many strict lines of reporting and it's important to lead by example.

As expansion takes place recruitment of the right people with connected values to what the company stands for is vital

Managing Cashflow

Every year 50,000 small firms die because of late payments

Most small and mid-sized companies fail because of poor management of cash flow. To overcome this make it one of your principle tasks on a regular basis. Focus on businesses that pay on time

Keep an eye on stock, overdue invoices and the gap in time between paying suppliers and being paid.

Seek deposits or being paid up front by customers. On the other side of the equation, delay payment of providers and if necessary seek help of banks, hire purchase or factors.

Always keep under review those who pay quickly and who change their paying behaviour as a result of being given discounts.

Creating an Entrepreneurial Culture

Remember the Average Sale value of an SME is £3 million

Success depends on making the move to an entrepreneur and adopting the "Can Do" attitude in everything you do.

There's always a reason why something can't be done but in running your own company it's important to find ways of doing thing and creating a positive environment. Engage the staff

to brainstorm with you and encourage a participative environment. Most importantly you need to act out the culture you want.

Don't have too much hierarchy and as far as possible have open communications with the team.

Overall think like a salesman and always ask the question

Ask yourself the question "So What"

Remember the award can be high and it can be a great feeling running your own company

But

And I quote Rob May the CEO of Association of Business Executives

"COMPANIES FAIL BECAUSE THEY DON'T PREPARE THEMSELVES"