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9th edition

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consultant editor: adam jolly

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## 25 solicitors – choosing them and using them

Solicitors do not get a good Press. They have acquired (or been given) a reputation for giving unconstructive advice, being hard to get hold of, using incomprehensible language and, above all, not providing value for money. The reality, of course, is somewhat different – there are good solicitors and bad solicitors, as in any profession.

So as a key decision-maker in your business, how do you pick lawyers who are going to help your business? And having done so, how do you get the most out of them?

First of all, you need to understand how solicitors operate. Like any other business, they are in it to make a profit. But different firms have different approaches as to how to make their money – and, indeed, how much to make. Much airtime and paper nowadays is taken up by legal gurus advising lawfirms to “commoditise” their services. The idea is that in order to maximise profits, a large proportion of legal processes and transactions can be standardised to a greater or lesser extent. What this means to the solicitors' practice is that carrying out the work on any particular matter is delegated to the most junior possible (and therefore cheapest) fee-earner, who will generate standard documents and perform standardised procedures. At the same time, the partners in the firm will spend the bulk of their time managing these juniors, rather than doing any actual legal work. Internally, their focus is on minimising risk. They will manage the client relationships, but will not be au fait with the details of the matters being handled.

The larger the client company, the better this model works. It is particularly suited to client companies with their own in-house lawyers who have an in-depth knowledge of the relevant business, leaving the external solicitors to deal with legal transactions and specialist areas of legal advice. The lawfirms which espouse this model tend therefore to concentrate their business development efforts on attracting large corporates. They tend to be the City firms and the larger provincial firms, and their partners generally earn in excess of £200,000 per annum (partners in some of the “magic circle” firms in London earn over £1m a year). Smaller businesses are less important for the firm's future, and can be left to be dealt with by non-partner solicitors.

It will help if you have a clear idea of what your own needs are in terms of input from your legal advisers. Typically, most of the decisions in a smaller business are taken by a very few individuals some or all of whom own significant portions of that business. But they rarely have much in the way of legal experience. So they need experienced, pro-active help and advice as to what to do in order to achieve their objectives in matters with a legal element. They need a person who is

focused on finding solutions to problems. They need an adviser who has the imagination to be able to put himself or herself in their shoes, and who has sufficient experience to look at the broader commercial picture. They really need someone who is able to be an ad hoc member of the management team, who is in reality what could be described as an "out-house in-house lawyer".

The kind of solicitor most suited to your SME business is likely to be one for whom these kinds of business relationships are of paramount importance. But for that very reason, such firms tend not rely much on advertising to attract business. Space advertising does not normally generate the kind of response for them that makes its cost worthwhile, and trade telephone directories are really for the high street operators. Where they get their business from is recommendations, from their existing clients and from people they know in other professions – accountants, surveyors, IFAs and the like. It follows that in order to identify this kind of relationship-focused firm, what you will probably need to do is to talk to your friends and acquaintances in similar situations and to your existing professional advisers, to see if they know a firm they are happy to recommend. Directories of lawfirms do exist, but generally the firms included contribute their own entries, although a few of the directories do also carry out some research and highlight particular specialisms, both of firms and of individuals

Having identified one or more possible firms, contact the individual solicitor there whose name you have been given. Ask questions about their experience in the kinds of legal matters on which you wish to have assistance. And listen to their own questions to you and for signs that they are interested in you and your business. The more remote and impersonal the source of your introduction, the more care you need to take. Pick a firm to whom you are important.

Cost is of course an issue, but it should not be the deciding factor unless you need a "tie-breaker" between firms that are otherwise similar. In particular, do not allow yourself to be distracted by the easy comparison of hourly rates. The fact is that the value that you get from your solicitors is more governed by the efficiency with which they deal with your work and the quality of the advice they give. But do get them to give you an idea of how much a particular task is going to cost, if you are able to define its scope sufficiently. Even though a firm may not be the cheapest, if they are good they will have confidence in the quality of their service and will not be ashamed to explain how they have reached their estimate.

Above all, remember that your solicitor is going to be a colleague, at least from time to time – so choose someone with whom you feel comfortable.

Alan Williams  
Senior Partner, Buss Murton LLP,  
Solicitors with offices in Tunbridge Wells, Dartford and Cranbrook

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Adam Jolly



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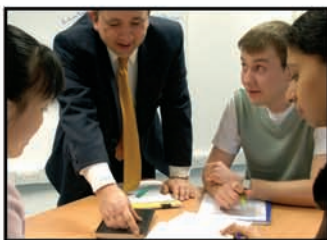
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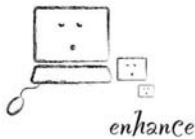
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## Copyright and business

Copyright is a right granted by law that gives the creators of literary, dramatic, musical or artistic works the ability to control ways their work is used and to earn a fair reward for that use. In the case of authors and publishers it provides a means for them to earn a living by writing and publishing.

In addition to written, musical or artistic works the law also protects sound recordings and films (CDs, videos and DVDs) as well as computer software and broadcasts.

Copyright is part of a family of intellectual property (IP) rights recognised under UK law. Other forms of IP that enjoy legal protection include Designs, Patents and Trademarks. Copyright law in the UK is automatic and work is legally protected the moment it is created in material form, e.g. written down or recorded. The legal owner in the first instance is the creator (author) of the work. The main exception to this is when the work is created in the course of employment and in these cases the copyright usually belongs to the employer. Copyright protection in the UK generally lasts for 70 years following the death of the author.

### Rights granted by copyright law

The UK legislation governing copyright is the Copyright, Designs and Patents Act 1988. The law was amended by the Copyright and Related Rights Regulations of 2003 to comply with EU Directive 2001/29/EC.

The law sets out specific rights that only the author of the work has the right to do. These rights can be placed into two distinct groups; economic and moral.

Economic rights are:

- the right to make a copy
- the right to distribute copies (publish)
- the right to rent or lend
- the right to perform or exhibit to the public
- the right to transmit or broadcast
- the right to adapt

Moral rights are:

- the right of paternity - to be identified as the owner
- the right of attribution - to not have the work falsely attributed
- the right of integrity - to object to any usage that damages reputation

These nine rights are alternatively known as 'restricted acts' as they are acts that only the owner can authorise. The copyright owner can manage and exploit their rights by either licensing them or by assigning the rights to a third party. By assigning the rights the owner gives up control of them on an exclusive basis whereas licensing them allows them to authorise restricted acts on a non exclusive basis.

## **Infringement of copyright**

Infringement of copyright occurs when a restricted act is carried out without the permission of the copyright owner; e.g. taking a copy of a work without permission. Infringement is generally a civil offence and a common penalty is the award of damages and the destruction of any infringing materials. However in cases where someone is dealing in infringing copies (selling pirate materials) this is known as secondary infringement and can be a criminal offence punishable by a prison sentence. Where an act constitutes a criminal offence action can be taken by Trading Standards and other enforcement agencies as well as by the copyright owner.

## **The value of copyright**

The framework of intellectual property legislation generally and copyright in particular brings together the creators and owners of copyright works, such as published content from books and magazines, and the consumer that wants to use the work.

Copyright is important because it protects the interests of the creators and those who invest in creativity. If there were not legal copyright protection, it would be difficult for creative people to make a living from their work. It would be less likely that anyone would be willing to fund the publishing of a book, the making of a film or the recording of music if there were less opportunity to earn a return and there was no protection from copying by others. The easier it becomes to access creative works the more vital it is that we respect copyright law so that people continue to produce the creative works which add value to our lives. By supporting copyright owners, CLA plays a part in maintaining the value of their work, thereby sustaining creativity and its benefit to all. Through protection of this sort the creative industries in the UK have been able to grow to support millions of jobs and produce around 8% of the UK's GDP.

## **Changes to UK copyright law**

In 2003, the law of copyright in the United Kingdom changed in a number of significant respects. The changes stemmed from a European Union Directive passed to harmonise the laws of copyright amongst Member States and to bring the laws up to date to take account of the realities of electronic information in general, and the Internet in particular.

The EU Directive has led to a number of important changes to UK copyright law. One of the most important changes was to remove from some of the exceptions to copyright (i.e. fair dealing and the library privileges), any copying that is carried out for commercial purposes.

## Obtaining copyright clearance

Copyright law states that photocopying, scanning or digital re-use of an electronic publication is reproduction of copyright protected material and permission must be sought in advance to avoid infringing the copyright owners rights.

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# Winning Better Contracts

Winning new business is often about distinguishing yourself from the competition. Becoming accredited for the work you do can help you stand out from the crowd. Applying for UKAS accreditation was an obvious choice for **Gulley Howard Technical Limited**, a chartered asbestos surveying company. Managing Director **Jonathan Grant** explains.

“For the air testing and asbestos bulk sample analysis testing that we do it’s actually a legal requirement to be accredited to ISO 17025. Without that accreditation you cannot enter the market.”

Beyond satisfying the legal requirements, accreditation has also made Gully Howard a more attractive proposition for potential clients. Grant continues. “You don’t have to be accredited for the asbestos surveying work that we do. However, our clients tend to look for accreditation by UKAS anyway, as it means that a number of checks have already been performed in a rigorous way by an independent external organisation. Not only does this give them confidence in your abilities, it also saves them time and expense in performing those checks themselves. There is no way that we would have had Hampshire County Council as a client unless we were UKAS accredited.”



# through Accreditation

Becoming UKAS accredited can provide access to new marketplaces, both in the UK and abroad. **RFI** provides consultancy and testing services to the electronics industry and wireless communications industry around the world. With such a diverse international base, the international reach of accreditation has been of particular benefit to RFI, as its Chief Executive, **Stephen Kirk**, explains.

*“UKAS accreditation has a very significant impact on, both on our topline sales and bottomline profitability. As a signatory to the international Multi-Lateral Agreements (MLAs), UKAS accreditation is recognised across the world. This makes it much easier for us to attract clients from overseas.”*

**MLAs are also very important to RFI's customers. Kirk continues.** *“Typically our customers are looking to sell their products in anything up to 50 different countries. It is not feasible for them to have their product tested in every single one of those countries. The costs involved would be prohibitive, and the subsequent delay to market would place those products at a severe competitive disadvantage. The MLAs mean that customers can have their products tested once, and the results of that test are accepted in every signatory country around the world, effectively giving them an international trading passport.”*

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## **Selling a Business – by Roger Stirling Smith FIOD**

Most business owners will only sell a business once in a lifetime. Without previous experience, it can be a difficult, complicated and stressful process. Selling a business is a major financial decision and can be a costly one, unless opportunities for reduced taxation, pensions and other areas of financial planning are considered. Sufficient reason then for using a Business Transfer Specialist to manage the sale and maximise the financial return for the business owner.

The process of selling a business requires careful planning with special attention to marketing and presenting the company correctly, to ensure that the message reaches as many potential buyers as possible. The price and terms for the business sale need to be skilfully negotiated, keeping all options open with potential buyers, to secure the best sale for the business owner.

By appointing a Business Transfer Specialist or Broker, you stand a much greater chance of securing a higher sale price and thereby will be able to cover the sale fee several times over. Most brokers will have a database of potential investors looking for businesses for sale and they should know where to advertise a business to generate good enquiries. This is important as the value of the business is often described as being “worth as much as someone is prepared to pay for it” (despite at least 5 different valuation methods). It therefore makes sense for the broker to aim for a short list of potential buyers which will usually bring in a range of offers, some of which may be double that of others.

An important part of the sales process is the provision of useful information to the prospective buyer. The seller will need to ensure that essential information such as the Statutory Accounts, Management Accounts, Staff Records, Contracts of Employment etc are all up to date as part of their exit strategy, whilst the Business Transfer Specialist will prepare a Sale Memorandum document for the prospective buyer, once a Confidentiality Agreement has been secured.

The Sale Memorandum needs to be professionally written and presented, as this will provide a first impression to the prospective buyer. The potential buyer needs to understand exactly “what is being sold”, to decide whether or not to acquire the business. No one likes time wasters, so far better to gain feedback at an early stage.

The Business Transfer Specialist should be able to provide good information to the prospective purchaser (provided by the seller) and keep a database of all potential prospects. Dealing with enquiries, Confidentiality Agreements and supplying timely information will enable the business owner to carry on running the business whilst a buyer is found.

Before appointing a Business Transfer Specialist, it is worthwhile meeting at least three brokers to compare terms of business, fee structures and to clearly understand exactly what services will be to be provided, especially when it comes to marketing. It is also worth clarifying exactly ‘who’ the business owner will be dealing with. Read the ‘small print’ on the terms of business, such as exclusivity clauses and cancellation terms. Finally, check the standard to which the Sale Memorandum document will be prepared. The business owner may have spent years developing a brand and corporate identity, presenting the business in a professional manner, so the same should be done when the time comes to sell the business.

By taking time to understand your future plans, the Broker will be able to develop an agreed exit strategy and business transfer plan to achieve a successful sale. However, the sooner you start planning for the sale the better, as the process can take up to six months to find a buyer and a further six months to complete the sale. A good Business Transfer Specialist will not charge the earth and will have a realistic view on valuation, exit options and taxation. You may only sell a business once, so it is worth getting the best advice and help available to realise your future plans.

*Roger Stirling Smith FIOD – Stirling, Business Transfer Specialists*

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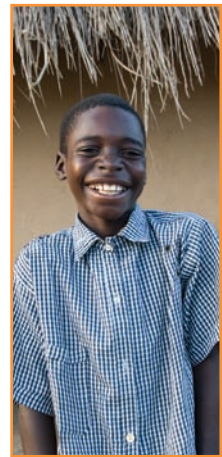
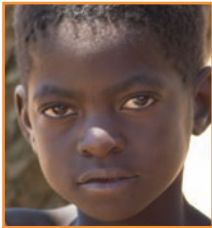
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## Motivating employees to make a difference

Royal Bank of Scotland's Mark Walters explains how a simple scheme to support World Vision has inspired staff across the company.

### **"We're going to transform a village in the poorest country in the world."**

This is the vision I set out to achieve by linking the passion and enthusiasm of my colleagues at work with the skills and expertise of one of the world's leading development charities. Six months into the project and we're well on the way to realising our dream of transforming the lives of thousands of children in Komabangou village in Niger.

### **How it all started**

The idea was sparked by a leadership course I went on with a company called Vita Brevis. They taught me their seven principles of leadership, which included creativity, inspiring people and stepping out of your comfort zone. Like with any training course, I needed to put these principles into practice and build on what I'd learnt.

I sponsor a child in Malawi through World Vision who send me regular updates on how my sponsored child is getting on, and how my donations are helping the development programme for their village.

In one update I read about an initiative to drive down the high infant mortality rate in the village. By buying five bicycle ambulances the villagers could get expectant mothers to the nearest hospital quicker. This really hit home as my wife was due to give birth at the time and I couldn't imagine taking her to hospital on the back of my mountain bike!

The article also made me think about the leadership principles – and suddenly I saw an opportunity to promote child sponsorship to my colleagues. I work for Royal Bank of Scotland who run a Give As You Earn scheme as part of our benefits package. The scheme is open to all UK taxpayers, and you can contribute to any UK registered charity.

For every £1 an employee gives, RBS gives an additional £2. Also, because the donations are made through payroll, they're deducted net of tax. Sponsoring a child through World Vision usually costs £18 per month. By doing it through the Give As You Earn scheme, an RBS employee only has to give £4.68 per month net because the taxman pays £1.32 and RBS contributes the remaining £12. For higher rate taxpayers it only costs £3.60 per month net.

### **Pitching the idea to World Vision**

I knew that if my idea was going to succeed, I had to get people to sit up and take notice. The updates I receive from Malawi highlight that child sponsorship is a vehicle World Vision uses to fund village development programmes. I started to think big – if we could generate enough child sponsors, we could transform a whole village. Then, as well as keeping in touch with the children we sponsored, we could also follow the progress of their village.

I approached World Vision with my idea and met up with Dr Paul Marko, their head of corporate relations. Originally from a corporate marketing background, Paul saw the project's potential straight away. He offered us two village development programmes, one in

Niger and one in Guatemala. I opted for Niger where the programme was built around four key objectives:

- Health, drinking water and hygiene sanitation
- Food security and economic development
- Training and education
- Promoting cultural links and the children's understanding of the wider world

## Setting up the project

To get the project off the ground we had to have a quick and simple process for employees to sign up for child sponsorship. World Vision gave us a hotline number we could call to sponsor a child. This was where the experience came to life as people could find out more about the village development programme and select a boy or girl to sponsor. Many chose children who were around the same age as their own children so they could be pen pals.

The feedback on the process was excellent. Once someone had signed up to sponsor a child, all they had to do was complete a standard Give As You Earn form to arrange the monthly payment.

## How it took off

The most important step in the project was to put together a team to manage and promote it. This is very much a team project. It's owned and driven by staff – a bottom up process, not top down. It thrives on the enthusiasm and teamwork of employees throughout the company. And the word of mouth benefits have been massive as people have picked up the idea and promoted it to their teams.

I think it would be fair to say the reaction from people has been unprecedented. We really started to see significant volumes of sponsorship sign-ups when we ran trade stands with World Vision at a series of conferences. One member of the project team organised a stand over a 3-day Private Banking conference and got 214 people to sponsor children in Komabangou.

In addition to the child sponsorships, a number of teams within the company have asked to get involved by raising funds for World Vision. For example, Private Banking South has committed to raising £10,000 which will be used to fund the supply of safe drinking water to the village. While child sponsorship is still our principal aim, this is a great way to promote the project and generate income up front to give the development programme a boost.

## The results so far

To give World Vision enough revenue to fund the entire village development programme for Komabangou, our target is to sponsor 2,500 children. This will generate £7 million over the next 15 years. Just six months from the start of the project, we've signed up sponsors for 350 children, with nearly 300 coming from just two weeks of conferences.

We've also raised over £8,000 which will be used to buy mosquito nets for the children, and also to fund an agricultural project and a new classroom and equipment at the village

school. In addition to all this, we have commitments to raise £16,500 to fund the village water supply and 150 toilets.

Our next step is for the project team to visit Komabangou with World Vision this winter to see the programme for ourselves and report back to our colleagues.

### **Everyone's a winner**

The project with World Vision has proved to be a genuine win-win situation, benefiting employees, the company and the people of Komabangou.

The feedback from employees is that they get so much out of sponsoring a child – particularly if they have young families as it helps children understand African issues. From a financial perspective, many employees were already sponsoring a child, paying £18 by Direct Debit. Through the Give As You Earn scheme they've been able to reduce the amount they donate or, better still, sponsor more children for the same amount.

For a company of any size, this is a great way to get your employees engaged and motivated. It's also a very effective way to develop their skills. This was my original driver and it's certainly helped me in my own development.

Most important of all, projects like ours mean that thousands of people in some of the poorest countries in the world will get safe drinking water, a reliable food supply, education for their children and the ability to stand on their own two feet and contribute to the development of their villages.

### **A modern business partnership**

I strongly believe that the project we've set up can work for any company, large or small. Links with a leading charity like World Vision is a modern business partnership which can transform the lives of many people in the developing world.

You don't have to fund an entire village development programme. By generating a certain number of child sponsorships, you can fund a capital project such as a school classroom or the water supply to the village. Your company doesn't even have to contribute to the Give As You Earn donations. Your employees will still receive the tax benefits – and the paperwork is minimal.

This project has been a remarkable experience for everyone involved. The key success for us is that we can see the difference we're making. Although we work for Royal Bank of Scotland, this is not a project or charity sponsored or officially supported by RBS. We as staff are simply using the company's Give As You Earn scheme to do something we're now really passionate about.

I would recommend working with World Vision to any company. They've been the perfect partners, helping us set up and promote the project, keeping us in touch with the children we sponsor, and sending us photos and video as the village development programme continues to make a difference.

If you would like more information about World Vision's child sponsorship and village development programmes, contact Dr Paul Marko at [paul.marko@worldvision.org.uk](mailto:paul.marko@worldvision.org.uk) or on +44 7990 591931.



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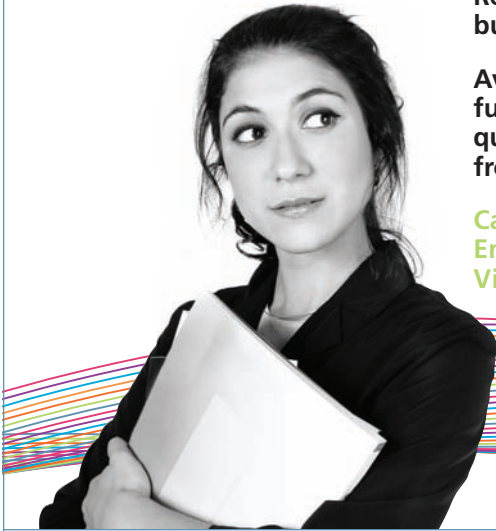
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# Foreword

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Growth is rarely, if ever, easy. By definition, it almost always represents an uphill struggle. You are stretching the limits of the possible. You are taking on the competition. You are asking your team to perform heroics. You are deploying all your cash. If there is a weak point in this chain, you can easily break under the pressure.

Fervour and passion will only take you so far. On the back of a great idea, you can probably push your sales up to £1m, before everyone else starts to catch up. All too often, enterprises then reach a plateau, from where they find it hard to reach the next level.

This book gives a comprehensive insight into techniques and solutions for maximizing growth and controlling risks. Even in the adverse trade winds that we are now experiencing, if you can resolve your challenges and develop a coherent plan, the evidence suggests that you can still put yourself on the path to super-sized growth.

If you are going to take earnings up a bracket to £3m, then £8m and on to £20m, then you will have to start thinking in a new dimension. You will switch from being an owner to a CEO and surround yourself with a strong team of managers. You will build a capital structure so you can fund the business on the basis of its future earnings, instead of putting up your own security. And you will create a brand to reflect how distinctive you are becoming for your customers.

Somehow, you will find a way of keeping the original excitement and energy of your enterprise, but will put in place more controls on what happens. As well as keeping a close watch on the financials and spotting any risks that you could up-end your plans, you will remember to build a pipeline of ideas on which your future performance will depend.

You cannot let yourself assume, however, that your existing business model always represents the best route to market. You have to be able to keep changing your format and operations. You also have to know when to fast-track growth and buy another business.

This edition of *The Growing Business Handbook* is designed as a practical guide for entrepreneurs and managers as they confront these decisive points in their growth cycle in 2008 and 2009. All told, there are some 70 experts who have written chapters on different aspects of the growth process. The IoD and Kogan Page are grateful to them all for sharing their experience and knowledge so freely.

*Miles Templeman*  
*Director General*  
*Institute of Directors*

# Planning for growth

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BEEN LEFT BLANK**

# Growth in adversity

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*Even in tough conditions, most enterprises are still planning to grow, says Ross McFarlane at RBS*

The United Kingdom has seen a rise in the number of entrepreneurs and SMEs, inspired by TV programmes like *Dragon's Den*. Growing a business is an exciting challenge – and a demanding one.

The needs of businesses today evolve rapidly and the correct funding depends on your individual requirements and the type of business in question – domestic or international – all placed in context of the prevailing economic climate.

## The current economic climate

At RBS, we understand the importance of keeping a close eye on the bottom line but we also understand the importance of having a clear view of the bigger picture. The wider economic environment has a massive impact on the performance of your company – not to mention your customers and your competitors.

However, strong companies with growth aspirations will have little difficulty finding debt to fund bolt-on acquisitions, buyouts and mergers in today's market. This comes in spite of the return to more normalized levels of finance availability following the frenzied high leveraging happening at the same time last year.

One remit of any bank is to match those business ambitions with appropriate lending facilities. A new survey by the Asset Based Finance Association showed that 74 per cent of companies are refusing to put their growth objectives on hold, and 67 per cent are confident or very confident about seeing through these ambitions with additional funding.

Invoice Finance

# Helping your business grow



Here at RBS Invoice Finance we have a real focus and commitment for client success. We want to make things straightforward for our clients and help them seize opportunities for business growth. This commitment is backed by strong delivery and the ability to provide the right solution.

For further information on RBS Invoice Finance, please telephone:

**0800 711 911\*** or email [invoicefinance@rbs.co.uk](mailto:invoicefinance@rbs.co.uk)

\*Lines are open 9am – 5pm weekdays. Calls may be recorded.

[www.rbsif.co.uk](http://www.rbsif.co.uk)

**Make it happen**

 **RBS**  
*The Royal Bank of Scotland*



## Contact

RBS Invoice Finance  
Smith House  
Elmwood Avenue  
Feltham  
Middlesex  
TW13 7QD

**Telephone:**  
**0800 711 911\***

\*Lines are open 9.00am – 17.00pm  
Monday to Friday

**Email:**  
invoicefinance@rbs.co.uk

**Web:**  
www.rbsif.co.uk

## RBS Invoice Finance

**RBS Invoice Finance is one of the UK's leading Invoice Finance providers and part of The Royal Bank of Scotland Group. We're committed to helping growing businesses.**

Waiting up to 90 days or more for invoices to be settled can create real cash flow issues and can impact on your growth potential. With RBS Invoice Finance, you could release up to 90% of the value of your invoices immediately, with the rest to follow when they are settled.\*

RBS Invoice Finance can be more than a cash flow solution, we have helped clients to raise funds for MBOs, MBIs and finance acquisitions. Call us today to find out how we can help your business.

\*Less our charges.

## Services and Products

Factoring  
Credit Management  
Invoice Discounting  
(confidential and disclosed)  
Bad Debt Protection  
Asset Based Lending  
facilities  
Export/Import service with  
multi-currency capability  
MBOs/MBIs  
Acquisitions  
Debt restructuring and  
turnaround

## Association Memberships

Asset Based  
Finance Association





Equally convincing about the galvanizing growth effects of the SME sector on the wider economy was the government's recent Annual Small Business Survey, which found that 66 per cent of SMEs were aiming to grow their business over the next two or three years.

## Working capital

A successful growing business will often be a business selling more to more customers, growing turnover – but that will also increase the amount of money owed from unpaid invoices, and therefore increase the working capital cash flow requirement of the business – the more successful they become.

Efficient cash-flow solutions are essential for a business to survive and grow effectively. What many businesses need is not only financial help for the long term, but also help with making cash available on a day-to-day basis to pay staff and suppliers. At the very least a firm requires access to sufficient cash balances to meet its day-to-day overheads, and to act as a buffer in the event of delayed payments and bad debts. Some firms do not anticipate all their expenses, and discover, when it is often too late, that their business is at risk.

One of the most important considerations for firms is to put cash flow first, profit second and turnover last. A survey conducted by the Forum of Private Business recorded that just £20,000 of overdue invoices could push a third of small and medium-sized firms out of business and three in four admit that late payment is a 'considerable threat' to the viability of their business.

By making the most of an extensive sales ledger service (which includes collecting payments and issuing regular statements), business owners can free themselves from routine administration and can concentrate on running their business. And with many businesses reluctant to get tough on late payers – because they are also valued customers – it can help to have an outside organization chasing payments. It puts the whole payment process on a much more structured footing.

Businesses considering expansion by means of an acquisition, management buy-out (MBO) or management buy-in (MBI) should seriously consider invoice finance as a possible solution to the immediate cash-flow pressures.

The Royal Bank of Scotland Group is one of the world's leading financial services companies providing a range of retail and corporate banking, financial markets, consumer finance, insurance, and wealth management services.

Ross McFarlane is Director of UK Sales & Client Relations at RBS Invoice Finance. RBS Invoice Finance is a leading invoice finance provider in Europe with over 8,000 clients. It operates from 25 locations across the United

Kingdom and continental Europe and offers a range of invoice finance solutions including full factoring, credit management, confidential or disclosed invoice discounting, bad debt protection and asset-based lending facilities.

To find out more about how RBS invoice finance can help your business please call 0800 711 911 or visit [www.rbsif.co.uk](http://www.rbsif.co.uk).

# Adding value to your business

CIMA qualifies business focused professionals who add value to any size of organisation. Chartered Management Accountants have the broad management skills which places them at the heart of the business, providing strategic direction and decision support.

Through a combination of skills, knowledge and the most relevant financial qualification for business, Chartered Management Accountants are at the forefront of their profession – driving success. So to add value to your growing business, recruit, train or develop a Chartered Management Accountant with CIMA to ensure business success.

CIMA can support the growth of your business through:

## Certificate in Business Accounting

The certificate in business accounting is aimed at both finance and non-finance staff to provide a foundation in management accountancy techniques. This open access certificate is conducted exclusively through computer based assessment.

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This provides online access to CIMA study material. **www.CIMAstudy.com** offers a dynamic, innovative and refreshing way to learn.

## CIMA Mastercourses

We offer a range of short training courses and seminars covering management accounting, management skills, financial awareness and soft skills for business.

To find out more about these and other ways in which CIMA can support you and your business visit: [www.cimaglobal.com/sme1](http://www.cimaglobal.com/sme1)



# Turning points in growth

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*£1m? £3m? £8m? £20m? Robin Tidd for CIMA on why some enterprises struggle to move beyond a certain level and why others reach their potential*

Two comments to set the scene. Firstly, this chapter is based on personal observations of hundreds of businesses over a 25-year period. Although it is not statistically/quantitatively surveyed, analysed and quantified, it is reasonably factual and representative in two ways:

- It is based on dozens of repeats of the various circumstances with great similarities.
- The events which businesses face do form part of a natural and obvious series of events which almost always seem to apply. It is all quite logical if you think about it.

Secondly, this is written with a focus on businesses that set out to grow, or that have been engaged in this process for some time.

I have described the issues against a framework. It may help to picture these businesses with a certain level of turnover, but the turnover levels have to be viewed as fairly arbitrary. The framework is:

- from start-up to establishment of roots, say up to £1m turnover;
- from establishment to early maturity, say up to £3m or £4m turnover;
- from early maturity to comfortable maturity, up to £8m or so;
- into medium size, which could be deemed to be £20m turnover.

## Fundamentals and the evolution/change process

I have no doubt that this subject could be expressed in any number of ways. I see it as four fundamental ingredients which have to exist and continue to exist to drive growth or to allow growth to continue. These four fundamentals will have to be upgraded or adapted significantly over the life of a business. If they are not addressed at the due times, growth is likely to be hampered or, even worse, the business could fail. We have the luxury in this chapter of simplifying things and looking at the issues from arm's length.

The four fundamentals are:

- intent: a vision or mission or intent which drives the motivation of the dominant personalities to continue to grow;
- method: a way of combining hard work with cleverness to put in place the organization, systems and ways of working which run all aspects of the business according to the intent/wishes of the owners;
- market: a recognized need in the market for what the business does or could do, such that there are 'good prospects for profitable growth';
- products or services: the basic deliverables which form the core of the business as defined by the capabilities and passions of the business.

Those who make it through all of the barriers we refer to above will have continually had to create and realign their processes to deal with nothing less than massive changes and keep the fundamentals in place. As a rider, remember that growth is not everybody's aim and continued growth is not everybody's definition of success. Lots of businesses reach a certain state and, whether consciously or by default, they run out of intent, because they have made it to where they are happy. Indeed, intent is the overriding fundamental.

What fascinates me is the number of businesses who still seem to have the intent but can't seem to continue the growth. As a result there are some frustrated owners out there. If you are one of those, I sincerely hope this overview is of assistance to you. If you are not frustrated but are looking for a spark, I hope you get it.

## Understanding the fundamentals in changing circumstances

### *The four fundamentals: intent, method, market and product or service standards*

#### 1. Intent

In the first instance with a new start, this could be as simple as a wish to find an alternative employment. In others it is a dream and a plan waiting to happen. Moving on to the first stage in graduation, ie at early maturity, all those who decided that business and all its risks were not for them will have gone or at least shelved their growth

aspirations. In most cases the remaining business configuration still has the founder/s at the helm and intent is not the issue, not the main barrier. The intent has always been there and is reinforced (in ups and downs, perhaps) as they get motivated by their success so far. My observation is that it gets harder to maintain the corporate desire as maturity is achieved. This is for two main reasons, either/or:

- a. Profits and wealth may render the owner/s satisfied with their lot. Further growth may seem risky, not what they wish in terms of lifestyle. In very many cases this is not a conscious decision; in fact, they have not realized that they have become risk averse and conservative. That is why I use the expression ‘comfortable maturity’ to define this stage. This is where a business has its place in the market and it is profitable, and seems to be able to keep up under its own momentum, ie without a lot of strife and upheaval.
- b. There is an organization structure gathering around the owner/s and the duty of motivating each other and the people in the business has partially transferred to these people, some of whom are not shareholders. They may not have the drive or the confidence or even the remit (!! ) to continue to ask for change and greater effort even though the owner still has the desire.

Obviously, many organizations do get past this stage. They will usually put in place a semi-formalized process (a habit) which ensures good teamwork, a common culture and set of values. This can only really be facilitated by very good communication and passion from the top. They may use bonus schemes or other reward schemes in addition, and will therefore be on the way to medium size. Whatever schemes are installed, there has to be a genuine passion and commitment from the top team to keep changing and growing. Intent is not a default position.

## 2. Method

This is about objectivity, professionalism, structure, good operating and control systems, and wanting to do things well. A vital part of this can be the MD’s attitude to delegation and involving/trusting other people. Many entrepreneurs fail to make this transition because they do not really have management skills, or do not want to let go at all. If they do not expand the management team, they have to work harder themselves and they constrain the growth because things don’t get done. There are many things here which I believe can snuff out feeble intent, but the good news is that those who have the passion will overcome weaknesses in management, for that is what we are talking about. This is about management, not vision or strategy. Here are some issues which will almost certainly have to be addressed:

- a. The people: An organization which has people with the right attitude as well as the necessary functional skills will always outdo the others. All part of the same point is that they must be charged with the responsibility to do the job and be led well by the MD/CEO.
- b. Dealing in facts: Almost all of the larger organizations have extensive information systems, the best of which will provide revealing information on all business

processes automatically and virtually in real time. I have seen many mature businesses which have an IT weakness and do not set high standards of information provision. By this I mean that the key performance indicators are too infrequent, too late and do not reveal enough about root causes. This has a serious effect on the growth and improvement mechanisms of the business because so much time is wasted in arguing or finding out what the facts are. It slows them down and can demoralize managers. Obviously, the larger and more complex the organization, the more important this becomes.

- c. A continuous improvement process (ie more than an intention) which sets the business constantly looking for ‘the gap between what is and what could be’. This process adds review meetings and a positive style of running meetings to the good information mentioned above. One cannot happen without the other. They don’t have to have a problem to make them look for a solution. Loosely speaking, planning and targeting forms part of this process, but the core of it is process management, viewing the business as a series of horizontal processes and recognizing that the involvement of the people in the process is paramount. You may be surprised but I have seen dozens of organizations of all sizes which have stacks of good information but do not use it because they do not have a formal continuous improvement process which runs on information and targets.

### 3. Market

Continuing to be aware of market trends means that an organization is served up with one opportunity after another. Keeping in touch through customers and own people seems the obvious way to do this, but there is an information highway on the World Wide Web to make things much easier now. This whole subject seems to be a game of two halves. The first half is full of threats for the newer businesses which will founder if they do not check that there is ‘prospect for profitable growth’ before they enter the market. The second half is about opportunities for the established business if they constantly keep on the lookout in the market for product development or market development ideas.

### 4. Product or service standards (and later, brand)

These should suit their passion and capability. This is not just about what they do but how well they do it. Good marketing will keep an organization on the ball with the product or service for which there is a market, ie a potential. But that is not enough. There are lots of examples of organizations that go on and on growing because they have done something special with their capabilities. The best way I have seen this put is that a world-class enduring organization chooses to be in businesses doing:

- a. things they are passionate about;
- b. things they could be the best (in the world) at;
- c. things that drive the economic engine.

Although this may seem a million miles from the small or medium-sized business issues, it contains some vital clues. What drive the economic engine are products and customers that deliver good gross margins. Some small businesses are not aware of which products and customers earn them the profits. That could be a fundamental oversight.

If a business is not passionate at a corporate level about what it does, customer care will suffer. Customers do get the message! If it is not very good at what it does it will not grow easily. This is a matter of the whole offering to the customer.

## Summary

The decisive points in the growth of business from early establishment and putting down roots up to medium size are probably (roughly in this sequence):

1. No research therefore no market, no plan therefore under-funded, and so failing to get established in the first place (the third fundamental).
2. Established and under way with competition, but poor product quality or service levels undermining the economic engine (the fourth fundamental).
3. Good growth but not well controlled, lacking method (the second fundamental) and economic under-performance again.
4. Longer established and larger but poor methods, leading to demotivation of the management team who do not have the incentive of the owner (the second fundamental again).
5. Performing very well and no real change in the organization's culture, so that two things conspire. The owners run out of passion for the growth struggle and the management team has no reason to substitute theirs (the first fundamental).
6. With continued drive but less than best practice methods growth will be held back, but eventually the intent of the enlightened and the objectivity of top management wins through (perhaps after a battle between the old and the new) and the organization finds a way of improving its methods and *as a direct result* underpins the product/market offering in the long term.
7. With continued drive and commitment and superior method, nothing can stop them... can it?

CIMA, the Chartered Institute of Management Accountants, is the voice of over 164,000 students and members in 161 countries around the world. Our members and students work across all business sectors, at all levels throughout the world. CIMA develops high-quality professionals, whatever the size of your organization, through a combination of skills, knowledge and the most relevant financial qualification for business – driving business forward. For more information visit the CIMA website at [www.cimaglobal.com](http://www.cimaglobal.com).



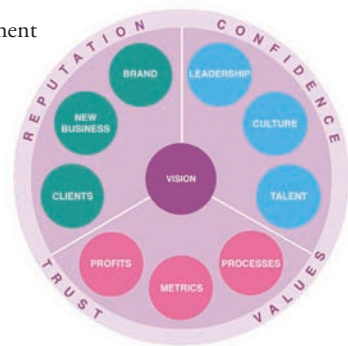
Robin Tidd MBA, FCMA, MCIM, MIOD has been a consultant for medium sector businesses for over 20 years. He specializes in business performance improvement, KPIs and sales and marketing strategy. Robin is also Contributing Editor for SIFT media on publications such as *Accounting Web*, *Business Zone* and *Finance Weekly*. Tel: 07973 713 574

**Consultrix are specialists in improving people, performance and profits which will enhance the long term capital value of companies.**

### What can Consultrix do for you?

Consultrix works with creative and knowledge based companies helping them develop and achieve their corporate goals. Typically our clients want to accelerate growth, build and maintain sustainable profit streams and develop strategies that will maximise the capital value of their companies (without destroying the values that make them unique and special). To do this we use a unique combination of commercial expertise and psychological insights to help clients in the following ways:

- **Strategic Consulting**
  - Understanding and clarifying personal and corporate objectives
  - Business planning to maximise profits and capital growth
  - Advising on M&A options, timings and deal structures
- **Creativity and Innovation**
  - Fostering radical and incremental changes in thinking, things and processes
  - New services and product development
  - Challenging the paradigm/status quo
- **Leadership and Succession planning**
  - Cultural and entrepreneurial leadership assessment and development
  - Attracting, developing and motivating Talent
- **Operational Consulting**
  - Positioning, marketing and promotion
  - New business development
  - Client retention and development
- **Business Development**
  - Industry and functional benchmarking
  - Measuring and improving client profitability
  - Margin improvement



Professionalism, quality and effectiveness are very important to us and we are passionate about what we do and how we do it. We know the effort our clients put into producing their products and services, and are determined that whatever we do matches that effort and helps them achieve their long-term strategic goals.

We also help our clients put their new strategies and visions into place by acting as Non Executive Directors (NED) or Retained Consultants.

### HOW CAN YOU CONTACT US?

Head Office : 01793 726128 or London Office: 020 7409 7398  
Email : [enquiry@consultrix.co.uk](mailto:enquiry@consultrix.co.uk)  
Web : [www.consultrix.co.uk](http://www.consultrix.co.uk)

# Growth strategy

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*Dreaming of successful growth is not enough. You need to plan for it and then make it happen, says Allison McSparron-Edwards at Consultrix Ltd*

So, you think you are ready to grow your business. But, do you really know what you want your business to become and have you worked out what you need to do to achieve your goal? When will you start – tomorrow or next month or next year – and how will you know if you have succeeded?

It is a shocking statistic but most directors are unable to articulate the mission and corporate objectives of their business in a simple statement of 35 words or fewer and, if they can't, then neither can anyone else. A business without a clear vision is a bit like an orchestra without a conductor. Each musician expertly plays their own instrument, although not in time with anyone else, resulting in a cacophony of uncoordinated noise. This happens in business when individuals and departments work to their own and not a common agenda. The result is that they never quite provide clients with what they want, nor create the planned profitability. When you create a simple all-encompassing strategy, based on the long-term vision of the company, everyone begins to work in concert with one another, all pulling in the same direction towards a common goal.

Remember the old maxim that 'If you don't plan to succeed then you are planning to fail'. So to avoid failure, plan to succeed by sorting out the following:

- **Mission and values:** Document in a simple statement the reasons for your business's existence and the ethical values under which you operate. A mission might be to 'Help FMCG clients grow profitably through new customer acquisition' and a values statement might outline the manner in which the services are delivered

‘in a fair, honest and professional manner’. A mission and values statement helps to define what you are in business to do and how your employees should behave (doing the right thing) but won’t clarify what they should actually be doing.

- **Vision:** Clarify what you want your business to be in the future. Create an aspiration around which a managing director can focus the attention and energies of employees towards a common goal.

A good vision will:

- paint a picture of a desired but realistic future;
- generate and deliver value;
- be distinctive and command attention;
- be credible and memorable;
- inspire and liberate;
- be succinct and context free;
- be ambitious but achievable;
- create ‘clear blue water’ between you and your competitors.

- **Strategic statements:** Should include clear, commercial objectives (what is the business actually trying to achieve?), define the scope of the offering (what do you do?) and explain how you differentiate your business from the competition (what do you do that they don’t?). Your strategy should be unique to your firm and should guide both individuals and teams within the organization towards achieving a common goal.
- **Objectives:** Should be clear and SMART (Specific, Measurable, Attainable, Realistic and Time Bound). There may well be subordinate objectives supporting the main one, each of which should be measurable by key performance indicators (KPIs) which can be reviewed and acted upon on a regular basis.
- **Capabilities and scope:** It is important to cover three things: What do your ideal clients look like (size, geography, sector etc) and what do they need from you (consultancy advice, creative ideas, products etc)? What products and services can you offer your clients now and in the future? How will you deliver what your clients require (what processes; will you do it all; will you have partners etc)?
- **Differentiation:** Many other businesses may be chasing identical ‘ideal’ clients and offering similar services and processes. You need to articulate a customer value proposition which outlines why clients should buy your products and services and not those of your competitors. Having worked out the differentiators you should then capture the unique activities, processes and capabilities that allow you to deliver the customer value proposition so that you can reinforce and build on your uniqueness. It is important to keep revisiting these differentiators to ensure that they remain pertinent and still represent the needs of your clients.
- **Communication:** Employees throughout your organization should be involved in crafting the mission and vision statements to ensure their clarity and meaning.

Words really do lead to action. Get the words right and communicate them properly and your employees will understand what is expected of them and will feel energized and empowered. The net result will be a focused organization producing the long-term financial results that you seek.

**Table 1.3.1** The vocabulary of strategy

<b>Term</b>	<b>Definition</b>	<b>Personal example</b>
Mission	Overriding purpose of the business, in line with the values and expectations of the stakeholders	Be healthy and fit
Vision	Desired future state; an aspiration	To run the London marathon next year
Goal	General statement of aim or purpose	Lose weight and strengthen muscles
Objective	A precise statement of the goal	Lose 7 pounds by 31 December and run the London Marathon next year
Capabilities and scope	Resources, activities and processes. Some will be unique and provide 'competitive advantage'	Proximity to fitness centre, a successful diet
Strategies	Long-term direction	Exercise regularly, compete in marathons, diet appropriately
Controls	The monitoring of actions in order to assess the effectiveness of strategies and actions and be able to modify them as necessary	On a weekly basis measure and monitor weight in pounds, the number of miles run and the time taken. If goals not achieved consider alternative strategies and actions

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## What next?

A vision and mission by themselves won't actually make anything happen. You need to work out what actions you need to do to turn your vision into a reality and document it in a strategic plan. What you document, you can monitor, measure and amend when appropriate.

## *Strategic plan*

Any supporting strategic plan should include the mission, values and vision statements plus the following in some detail:

- **Marketing and sales:** Having a good value proposition does not mean that your products and services will sell themselves! You need to create a new business strategy that will support the strategic objectives of the business, creating new business opportunities day in and day out, regardless of the current economic climate. This will involve many things, including the building of targeted databases, appointment-getting strategies, the provision of collateral, leave-behinds, credentials, pitch documents, proposal outlines, contracts etc.
- **Clients:** Having won your ideal client you need to create individual client development strategies which should be reviewed on a regular basis. Such strategies should ensure that you maximize the long-term value of client relationships by a variety of means, including: cross-selling or up-selling, creation of long-term contracts, winning repeat business, performance questionnaires, wining and dining (where appropriate) etc.
- **Human capital:** None of the above will be possible without the ability to recruit and retain talented individuals. Your talent management strategy will help you understand exactly what talents, skills and experiences your business needs to succeed in the long term. It will define where future employees will come from, how you will remunerate, train and reward them. In order to grow you will need to create succession plans enabling you to promote or replace key staff, which in turn will support the organizational structure you need to achieve your long-term goals. Above all, you should have a strategy that creates a culture of confidence, profitability and enjoyment that stakeholders (whether they be employees, clients or suppliers) want to work with.
- **Innovation:** Plan to create a business, and products and services, that others will want to emulate. You should also build in time to think of new ideas and new ways of doing things. Encourage all your employees to find time to think about the future, to innovate and to be creative. The insights gained will help you put clear water between you and your competitors in the future.
- **Profitability:** Profit strategies should recognize that all corporations are in business to make money (even not-for-profit organizations have to show that they have put their hard-won donations to good use). Net profit margins should be stretching, achievable and, above all, sustainable. They should not be set at such a level that they are too easy to achieve, nor so hard that they create a culture of 'win at all costs'. Profit strategies should take account of client satisfaction, cash generation and stakeholder needs (including shareholders, employees, partners, suppliers etc).

An old adage states that 'turnover is vanity and cash flow is sanity'. Being very profitable on a small turnover is as precarious, however, as being marginally profitable on a large turnover. Getting the balance right between turnover, profitability and cash flow, and understanding the consequences, is very important for the long-term growth and success of your business.

- Key performance indicators: Define measures of success (eg turnover per employee, ROI etc) and then use them to benchmark your business against its past performance, your competitors and your business plans. Make sure that you review and act on the information you collect on a regular basis.

It is worth remembering that Noam Chomsky said ‘Whoever sets the agenda controls the outcome’. If you create a vision for your business, communicate it, monitor and adapt it for changing market conditions, you are more likely to achieve it than if you sit back and hope for the best. But – you can’t do it all on your own! Your vision will never happen unless you connect your strategy to action plans; you employ talented, empowered people and allocate them roles and responsibilities; you identify, monitor and act on critical success factors and reward those employees who make it happen accordingly. As Henry Ford said: ‘You can’t build a reputation on what you’re going to do. It’s simple: fantasize, rehearse, then go out into the world and DO IT!’

Allison McSparron-Edwards has worked for many years in the service sector. She began life as a Chartered Accountant with one of the top six accountancy firms before using her management skills in various multinational organizations and marketing and communications agencies. She has worked at board level in regional and London agencies, using strategy, new business development programmes and psychologically based management skills to improve commercial returns. Allison combines a shrewd business sense with the ability to understand the human issues involved in any group working together. Honest and forthright, she tells it how it is. Consultrix Ltd works with creative and knowledge-based companies improving profits and capital value.

For more information contact: Allison McSparron-Edwards BSc Hon Geology, BSc Hon Psychology, ACA, Managing Director, Consultrix Ltd  
Tel: 01793 726128  
[www.consultrix.co.uk](http://www.consultrix.co.uk)

# Managing growth in high-risk enterprises

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*Professor Gavin Reid at the University of St Andrews and Dr Julia Smith at the University of Strathclyde discuss how to ride the tiger of risk*

## Introduction

We are interested in high-risk enterprises because high risk typically brings with it the potential of high return. However, you have to ‘ride the tiger’ of risk, as it has both an upside and a downside. Of its nature, not all elements of risk are controllable. In driving forward a high-risk enterprise, the aim is to get growth which capitalizes on upside opportunities, yet steers carefully away from downside trends. To illustrate, *maximum* growth generally would not be a sensible management strategy for a high-risk enterprise, because of the trap of overtrading: that is, pushing your company beyond its natural capacity at that point in time, with attendant problems of rising marginal costs, cash-flow difficulties and debt-servicing crises, to mention but a few problems of trying to go too far, too soon, in risky settings. This chapter aims to give generic advice on managing growth and risk, founded on extensive evidence of best practice in high-risk business settings. This evidence-base draws on both statistical and case study data.

## Recognizing your risks

Ideally, it would be nice to get risk neatly calibrated. Unfortunately, much of the risk that has the potential for generating growth and performance cannot be calibrated. In



a sense, that is why it *is* potentially profitable. An early strategic decision that must be made is to distinguish between risk that can be calibrated and, therefore, can be turned into a solvable insurance problem, and risk that cannot be calibrated which, therefore, lies outside the insurance arena. To illustrate, a commonly recognized category of company risk is operational risk, of which defective products and the breakdown of machines are examples. Both these risks are, in a sense, predictable. In such cases, it would therefore be the job of operational managers to get measures of risk over reasonable runs of production (eg frequency of defects per thousand units). Then what actions should be taken? Product defects can be attenuated by better quality control and/or a replacement policy. The breakdown of machines can be controlled by better maintenance and by training to reduce machine downtime.

Risks like the above can be handled by what might be called self-insurance, within the company, or by contracted-out insurance, in the general insurance market (eg for breakdown of trucks, lorries, cars). In contrast to these types of risks are *uninsurable risks*, sometimes described as ‘uncertainty’. A risk of this sort relates to ‘one-off’ events. You have no controlled statistical record of data to assign a probability. A good example of uncertainty would relate to the regulatory regime. This might relate to competition policy, environmental policy and a variety of forms of government intervention, including subsidy and import protection. Not unrelated to these categories would be risks about tax regimes (eg income tax, sales tax, corporation tax) and the general legal framework (governing, for example, employment, product liability and litigability).

We will take it as read that those managing growth within a high-risk enterprise will sit down and review company operations, be the business small or large, with the aim of identifying and covering uninsurable as well as insurable risks. What we would also advise is that they do not throw their hands up in despair when it comes to facing uninsurable risks. We would hold that these can be managed, more or less effectively, and that a well-run firm will have operations that perform towards the better end of uninsurable risk management. At its simplest level, the first question to ask is whether you can identify *high* or *low* risk in the areas where risk cannot be insured (for example, technical change, Acts of Parliament, change of political party, trade union action). That is, even if you cannot measure risk exactly (eg by a probability), can you identify plausible *risk classes*?

The use of risk classes can be further refined by other knowledge that you can bring into play. For example, suppose you were dealing with technology risk. This could be a risk which arises because of the discovery of a new way of doing things, which could give you, or a rival, a unique competitive advantage. Even though the technology may be new, you should aim to make *yardstick comparisons* with related technologies, and the experience that firms have had in adapting to this use of technology, and selling these related technologies into existing and new customer bases. That is, do not be defeated by the novelty you confront (in this case, technology), but seek to discover what the impact of related forms of novelty has been in the past, and use this evidence to condition how you assign risk classes.

## Managing your growth

We have seen that high-growth firms are apparently attractive propositions when high risk is involved, provided there are ways of attenuating the downside risk. You seem to win both ways: you get lots of growth and lots of return. However, there are some fundamental facts of growth management that apply to firms, big and small, and they suggest that sustaining performance is a constant uphill struggle. The first fact is that growth rates of firms tend to fall over time. This is especially true of small business launches, but applies to large companies as well. Indeed, there is a lot of evidence that firms settle down to steady states of growth that can only be modified by radical action like major innovation, significant financial restructuring or wholesale organizational change.

Further, the second fact is that, if you try to push on growth rates, this can be self-defeating. You encounter *costs of growth* which rise sharply, the more you attempt to boost your growth rate. As a result, you may grow, but you only succeed in depressing profitability. This, in turn, may subject your business to more downside risk. For example, if you are a large business, it may make you vulnerable to hostile takeover; and if you are a small business, it may make you vulnerable to outright business failure.

Let us suppose that you categorize a business as being in a particular 'risk class', for example 'high', 'medium' or 'low'. True, this is not an exact calibration, but it allows you to create useful boxes for analysis. If you are high risk, several things follow. First, your cost of capital will go up, be it in debt or equity form. Second, your operational costs will go up because of higher premiums for insurance. Third, the devotion of resources to managing your uninsurable risks will create new 'opportunity costs' within the company that are higher, the greater the risk. By *opportunity costs*, we mean costs arising from taking one course of action within a firm which crowds out an alternative course of action. So, if a rival creates a technology which could make your products obsolescent, you will have to allocate resources to determining the nature and impact of that uninsurable risk.

## Growth and risk

Though it seems to state the obvious, growth and performance are not the same thing. Growth can be measured in many ways: for example, by sales, employment or assets. But, whichever way you measure it, this does not necessarily translate into profitability. In a competitive world, the central goal of the business, be it small or large, should be company value maximization. This implies that profitability, rate of return, and similar measures of performance are much more important than growth per se. Therefore, in talking of growth, we should be referring only to that form of growth which facilitates value maximization of the company. A failure to understand this distinction will itself constitute a significant business risk. Indeed, a major reason for small business failure, and large business takeover, is the sacrificing of value maximization to growth objectives. How much more risky could a firm be than when it is in a situation where liquidation or absorption is a likely prospect?

Indeed, predictive models of performance and survival suggest that attitudes to the purpose of the business have a major outcome on performance and risk. To illustrate,

the evidence suggests that if you dilute the goal of value maximization of your company (eg by focusing on apparently similar goals – of running your own business, being your own boss, satisfying your need for achievement, avoiding unemployment, or whatever) you will generally diminish your firm’s performance and increase your risk of business failure. The only attitude that minimizes risk of failure and maximizes chances of good performance is one of value maximization.

In terms of organizing your firm, to reap the benefits of high risk, in terms of high return, at the same time as ‘growing on’ your firm, organizational transformation will need to be rapid. Such transformation is best accomplished by skilled use of appropriate *information systems*. There are two types of firm that use information systems intensively – one you would like to be, and one you would hate to be. These types are ‘high-growth firms’ and ‘failing firms’. High-growth firms need information systems to sustain their high-wire act of achieving high growth and high performance, while attenuating downside risk; and failing firms need information systems just to keep them off the rocks. To use further figurative language, information systems are like the lights and the dashboard of a good car: they help you avoid an accident; or, more positively, they help you to move rapidly and safely from a place you want to leave, to a place you want to go.

## Five maxims for success

- Split your risks into the insurable and non-insurable, and allocate risk classes to the latter.
- Handle the former by inside or outside insurance; classify the latter and relate them to relevant yardsticks.
- Incorporate *both* risk types into your strategic thinking.
- In pursuit of growth, do not over-extend your firm as this will lower performance and increase the chances of failure or takeover: focus on value, not growth as such.
- Use information systems to monitor and control your firm effectively, and to better represent it to inside and outside stakeholders (eg providers of risk capital, regulators).

Gavin Reid is a graduate of Aberdeen, Southampton and Edinburgh Universities and has held posts at universities in the UK, USA, Canada and Europe. He is the author of over seventy articles in leading academic journals. He is an expert in entrepreneurship, venture capital, productivity and performance, financial structure, intellectual property, risk, and high technology firms.

Julia Smith has a BCom (University of Edinburgh), a PhD in Economics (Abertay Dundee), a PGC(TLHE) (Open University) and is a Chartered Management Accountant and Fellow of CIMA. She is currently Reader in Accounting & Finance at the University of Strathclyde.



# Greening your business with guidance from WWF-UK

## Business and the natural World – connected

If everyone in the world was to consume natural resources and generate CO<sub>2</sub> at the rate we do in the UK and much of Europe, we'd need three planets to support us. WWF works with international businesses, governments and consumers to drive us from a three-planet lifestyle to what we call a One Planet Future – where our well-being prospers within the Earth's ecological limits.

We are all increasingly recognising the ways in which business depends upon the natural world as well as the resource and climate constraints that are upon us.

Business these days needs to be done in a way that's aligned with environmental stewardship and this offers a wide range of business opportunities.

## Greening is good for business

As well as the advantages won through resource and energy efficiency, there are the reputational wins to be had. Consumers increasingly want to know the goods and services they buy are produced with environmental considerations in mind. Climate-friendly brands and green products are becoming more and more attractive.

## WWF working with industry

WWF engages businesses in a variety of ways in pursuit of systems change and economic reform in line with a One Planet Future.

We work with companies round the table and in partnership with the likes of HSBC and M&S on various sustainability issues while raising vital funds for conservation programmes around the globe.

The author, Dax Lovegrove, is Head of Business & Industry Relations at WWF-UK

For further guidance, please contact our Business & Industry Unit on 01483 412 395/4 and see [www.wwf.org.uk/businessguidance](http://www.wwf.org.uk/businessguidance); register for our One Planet Leaders Course – [www.panda.org/business/training](http://www.panda.org/business/training); or view WWF-UK's One Planet Future Footprint Calculator [www.wwf.org.uk/footprint](http://www.wwf.org.uk/footprint)

ONE PLANET  
FUTURE

# Greening up business

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*Reduce environmental impacts, use less energy, move to greener business models. Dax Lovegrove, head of Business & Industry Relations at WWF-UK, reports on how business is making itself more sustainable*

If everyone in the world were to consume natural resources and generate CO<sub>2</sub> at the rate we do in the United Kingdom and much of Europe, we'd need three planets to support us. By working with international businesses, governments and consumers, our goal is to drive us from a three-planet lifestyle to a one-planet future where our well-being prospers within the Earth's ecological limits.

We are all increasingly recognizing the ways in which business depends upon the natural world as well as the resource and climate constraints that are upon us. Suppliers of goods and services rely on all kinds of natural resources, whether it's the continual supply of fresh water we need to grow and manufacture cotton for the clothing industry, the timber needed by DIY stores, house builders and furniture makers or the soil we need for agricultural production. As one of our Marine team puts it: 'if there's no fish in the sea, there's no fish fingers on the shop shelves'.

We also know the escalating costs to our climate and to the bottom line from wasting energy and using energy supplies from oil and other fossil fuels. Maximizing energy efficiency and minimizing the carbon footprint, therefore, is good for the climate and good for business.

## Good for business

It is more evident than ever before that business these days needs to be done in a way that's aligned with environmental stewardship. Moreover, environmental leadership offers a wide range of business opportunities.

Those who can be more water efficient in their production of fibres, sustain forests and their supply of timber and protect the soil's ability to yield future crops will nurture business wins. In other words, companies that deliver more using less stand to gain a competitive advantage.

As well as the advantages won through resource efficiency, there are the reputational wins. Consumers increasingly want to know that the goods and services they buy are produced with environmental considerations in mind. Climate-friendly brands and green products are becoming more and more attractive.

## Environmental improvements

In terms of how businesses can improve their environmental performance, below are a few pointers from WWF-UK.

In the first place, understand where environmental impacts across the business are at their greatest. What natural resources are being used, where are they coming from, and where is the main carbon footprint? The biggest impacts are often within the supply chain and with the consumer use of products.

Secondly, prioritize green efforts in alignment with where there is greatest impact and decide where the company's responsibilities start and end. How can goods and services be better produced, how can those in the supply chain be engaged, what alternative sourcing arrangements can be made, and how can customers be engaged to use products more responsibly (for example, using less hot water with home cleaning products)?

Thirdly, carbon management is under much scrutiny, so prioritize energy savings above all else. WWF's suggested order of priorities is: 1. avoid; 2. reduce; and 3. offset the irreducible carbon emissions as a last resort to Gold Standard.

Fourthly, in a more visionary sense, what are the opportunities to shift towards a greener business model? Moving from product sales to the provision of services can be a key business differentiator as well as a win for the environment. For example, services around car clubs and sharing schemes are growing as an alternative to the more traditional and impactful practice of car ownership.

Finally, there are increasing opportunities for companies to look beyond their own environmental performance and to start playing a more proactive role in shaping the business world around them. Businesses on the front foot, which are not just reacting to emerging trends but seeking to steer the future interests of their staff, customers and investors and to shape upcoming regulation, will stay ahead of the game and be in a better position to build businesses that last.

## Leading sectors

Some lessons can be drawn from big business and the developments we are seeing within certain sectors. Starting with finance, banks are seeing their main footprint on the planet being through their investment practices. Bank-rolling high-carbon energy projects, deforestation, and irresponsible fresh water dams come with major risks. A

shift towards sustainable finance is starting to take hold and organizations are starting to focus on reducing their ‘financed footprint’.

In the power sector, the idea of selling less product and more services is being investigated. The energy services model – generating revenue from demand management instead of simply selling more and more electricity – would be in the interests of both energy and climate security.

Agriculture and food production are now understood to be the area in which our environmental footprint is most significant. Supermarkets and food producers are now grappling with complex issues in order to reduce impacts, particularly within dairy farming, meat production and general sourcing practices. Water shortages – exacerbated by climate change – in various parts of the world are increasingly impacting retail supply chains and so water stewardship is high on the agenda for many food producers and retailers.

Mobility – how we all get about – is another area where the substantial projected growth in carbon emissions needs to be addressed. WWF has done a lot of work in this field and we’re already experiencing car companies approaching us to explore business activity outside car sales to see how they can play a part in driving sustainable mobility.

WWF engages businesses across a number of sectors and in a variety of ways in pursuit of systems change and economic reform in line with a one-planet future. We work with companies round the table on various sustainability issues and in partnership with companies such as HSBC and M&S.

For further guidance please contact the WWF Business and Industry Unit on 01483 412 394/5 or see [www.wwf.org.uk/business](http://www.wwf.org.uk/business). Register for a One Planet Leaders’ Course at [www.panda.org/business/training](http://www.panda.org/business/training) or view the WWF’s One Planet Future Calculator at [www.wwf.org/footprint](http://www.wwf.org/footprint).

# Take control of the future

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*Know where you are in the cycle of growth, says Adrian Alexander, partner in corporate finance at Mazars, if you want to make the most of your options*

There is a life cycle for companies just as there is for human beings in many respects; they are created, flourish or otherwise, expand and grow, and in the long run may expire. All businesses eventually head either in the direction of growth – with the added possibility of making acquisitions – or in the opposite direction towards exit. The implications are that at some point the owners will either be buyers or sellers.

As the owners of companies think through their options they should consider that:

- Seventy per cent of SMEs are family businesses.
- Fifty per cent of family businesses have not identified a successor.
- Only 4 per cent inherit their business.
- There is usually no natural successor.

Finally, as coined by Benjamin Franklin, ‘Nothing is certain in life but death and taxes’.

The first part of the decision-making process should be to establish where the company is now in its life cycle as well as establishing the current valuation of the business.

Ideally the company will be in a ‘growth’ cycle with an ambitious, good quality management and employees driving the business forward. Unfortunately, a number of businesses fall into a ‘lifestyle’ cycle where the owners look to remain fully hands on in the business and over time lose the drive to take the business forward.



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In the event that business valuation does not meet the owner's potential future retirement ambitions, there is a need to establish where they do want to be and how they are going to get there. This will invariably require the business to grow, which can either be organically, if time allows, or by way of acquisition in the form of a buy and build strategy. The ultimate aim will be to increase the value of the business to a level that meets the retirement ambitions of the owners.

In all cases, planning is critical to a successful outcome and, while the different objectives will often require different planning strategies, there are a number of common issues relating to owner managers, which include:

- working on the business, not in the business;
- directing not managing;
- controlling not reacting.

## Organic growth

The company looks to grow by investing in the business in the form of additional resources, namely equipment and/or personnel. It will usually take time, years rather than months, for the investment to bring rewards in the form of greater shareholder value.

## Buy and build

A buy and build programme, provided it is correctly managed and integrated, can bring high returns. The multiple of price earnings ratio generally increases with size/value as it is associated with power, authority, security, stability of earnings and potential, and as such the ratio to be used following a combination of two organizations as a multiple of its maintainable earnings would be greater than that appropriate for a single organization.

One of the key factors in any buy and build strategy is planning, which should not only establish a key set of acquisition drivers but also a post-acquisition implementation strategy for when the deal has completed; planning for the latter should start well before the deal completes.

History shows that not all acquisitions are successful; the consequences of getting it wrong could mean collapse of the company and as such, at all stages risks should be reviewed.

Once the analysis and detailed planning has been completed, the whole process should be documented in a business plan. The preparation of a detailed business plan is essential if there is a requirement for finance but even if this is not the case it can prove a useful tool as it will consider the tangible benefits of the deal, the financial implications and the strengths and weaknesses of the new management. It will also test in detail the assumptions made during the planning process.

## Finding the right exit

Experience shows that to achieve a successful sale at a favourable price, there are a number of key factors and questions to be considered:

- Has there been a proper planning and grooming process?
- Is a trade sale realistic or should another option be considered first, such as sale to management?
- Are the market conditions right?
- Do the shareholders have a realistic view on enterprise value?
- Is the company profitable, with future growth prospects?
- Is there good quality management and employees to run the company going forward?

It is not always possible to plan for a sale because of external circumstances. However, if it is possible to address some of the questions above, it may be beneficial to the shareholders when they eventually do sell.

Many businesses undertake no planning and, as a result, the sale process can be far more arduous and complicated than it necessarily needs to be and sometimes a sale is not achievable.

## Key issues to think about when selling a business

It is important to be clear about the objective of the sale. Is the objective to achieve the best price with no continued involvement? Or is the objective to develop the business as part of a larger group and retain an equity interest? The former is often the case with a retirement sale and the latter may be the case for a younger vendor.

Again, the different objectives will require different planning strategies.

## What is a realistic valuation?

Ultimately a business is worth as much as a prospective purchaser is willing to pay, which may be more or less than what you may think it is worth. There is no simple rule on valuing a business and there is no 'correct' price.

At least a basic understanding of how the business will be valued by purchasers can help to try to maximize the sale proceeds. Discussions with advisers can help to establish a 'guide price'. This is not a valuation and all purchasers will make up their own minds as to what a business is worth and make any offers accordingly, but the guide price will often give a starting point.

## Grooming the business for sale

A properly planned 'grooming' exercise is essential. There are commercial, accounting and legal aspects to be planned for, in addition to taxation-related considerations which are important to consider early on in the process.

The ‘grooming’ will identify any issues requiring attention and give the owners the opportunity to put these right before the financial and legal due diligence exercise, which any prospective purchaser and /or their financial backers will require, gets under way.

It is important that key milestones are established and that external help is found, for example a non-executive director or an adviser to monitor the grooming process. Otherwise, it is very easy for the directors to go back to working in the business and lose sight of the grooming objectives.

## Conclusion

As mentioned earlier, at some point every company will become a buyer or a seller. Clarity of strategy is key to a successful transaction, whether it be making acquisitions or finding an exit.

The companies that are most likely to succeed are those that have planned properly, on a timely basis, and where the owners have become ‘investors’ in their own companies and are not involved in the day-to-day management. Potential investors/funders/purchasers are all looking for well-run, profitable companies with future growth prospects and good quality management and employees.

Adrian Alexander is a lead partner for Mazars’ corporate finance and deal advisory services. He is experienced in all aspects of corporate finance, including mergers and acquisitions, raising finance, management buy-outs and investigation work. Adrian is a leading expert in selling and acquiring companies and project managing these transactions. Adrian has a number of clients he is currently advising on their strategic options who are in the process of grooming their businesses for sale or undertaking ‘buy and build’ strategies and undertaking proactive acquisition search programmes.

Adrian is a member of the Institute of Chartered Accountants’ corporate finance faculty and has gained the ‘CF’ qualification. His publications written for the Institute include *Selling Your Business* and *Acquiring a Business*.

Tel: 01273 712 709

E-mail: [adrian.alexander@mazars.co.uk](mailto:adrian.alexander@mazars.co.uk)

# **Ideas and innovation**

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# Creative behaviour

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*Embrace creativity and watch your profits grow, says Tony Buzan*

‘The best way to get a good idea is to get a lot of ideas!’ (Linus Pauling)

## **Crisis + Creativity = Opportunity**

Credit crunch, financial downturn, falling sales, rising prices, budget cuts – are you concerned about how these will hit your bottom line? Imagine if you could improve the brain power of each one of your managers and employees, especially your own. In a marketplace where competition is fierce and it is so difficult to maintain corporate flair and individuality, it really *is* possible to learn techniques that can affect your turnover in a positive way. By focusing on learning, and practising creative behaviours, you will energize both your core business and the individuals within it.

I have spent many years researching the workings of the brain and transforming this knowledge into models that can empower each person to use his/her intellect to the maximum. These form the central triptych of my training sessions: Mind Maps; Memory; and Speed Reading and Information Management. In essence they constitute a Creativity Toolkit for the Brain.

## **What is creativity and why should you work creatively?**

Creativity is the development of original ideas, images and solutions based on existing old ideas by using imagination and association. We see here how important the current knowledge base is in promoting new concepts.



The driving force behind your creativity is your imagination. Creativity involves going on imaginative journeys, taking people into original and previously unexplored realms. These new associations give rise to the new realizations that the world calls ‘creative breakthroughs’. Thus it becomes clear that memory is the use of imagination and association to hold the past in its appropriate place and to recreate the past in the present, whereas creativity is the use of imagination and association to plant the present thought in the future, and to recreate the present thought in some future time.

Working creatively produces multiple ideas, which can then be fully assessed and analysed, with the very best of these innovations being processed and turned into products or services. This is where your company can reap the rewards of such creativity through creative behaviours, and the ensuing valuable intellectual property, which increases turnover and pushes up profits.

It is easy to call yourself ‘creative’ but actually *becoming* creative requires that you understand what creativity is, and learn how to develop that creativity. Dedication and energy are then needed to embed this new way of thinking into the culture of your business. It means really working at it and showing others how to do the same.

Becoming a truly creative organization is not achieved easily. It requires a radical paradigm shift in thinking and action. Every brain in your company is an *infinite resource* that must be stimulated and developed to maintain your competitive edge in the marketplace. People often talk of the brain as being a ‘problem-solving organ’ when in fact it is a ‘solutions-finding organ’. Once your employees understand that creativity is not something you have a go at once a week for an hour, they will understand that creativity is available to everyone – all the time.

Creativity can – and should – be applied in all areas of your business. Being creative can be difficult when you are obliged to work within codes of conduct and rules and regulations, which seem to deaden all levels of thinking. That is *precisely* when you need to look for fresh perspectives. This can feel dangerous at first, but it soon becomes exciting and liberating.

How can you achieve this? By applying techniques that, once they become second nature, will support you in all your endeavours, whether you are in meetings, managing clients and projects, developing business etc.

## Mind Maps and creativity

In a *Newsweek* article in 2006, entitled ‘The Road Ahead: How ‘intelligent agents’ and Mind Mappers are taking our information democracy to the next stage’, Bill Gates stated his conviction that:

a new generation of Mind Mapping software can be used as a digital ‘blank slate’ to help connect and synthesize ideas and data – and ultimately create new knowledge...and mental models to help people mine and assess the value of all that information...

Mind Mapping is the intrinsic mental model, which lies at the heart of his statement.

Why is a Mind Map such a powerful creative tool? Creating a Mind Map requires ‘whole-brain’, synergetic thinking that reflects the explosive nature of the neurons zapping across the brain in search of new connections during the process of thinking. It is like some vast pinball machine with billions of silver balls whizzing at the speed of light from flipper to flipper.

Your brain does *not* think linearly or sequentially like a computer. It thinks multi-laterally: radiantly. When you create a Mind Map the branches grow outwards to form another level of sub-branches encouraging you to create more ideas out of each thought you add to it – just as your brain does. Also, because all the ideas on the Mind Map are linked to each other, it helps your brain to make great leaps of understanding and imagination through association. Mind Maps are the thinking tool to unlock your brain power; they reflect the internal Mind Maps of your brain. If you have lost sight of your goals, or the bigger picture has become blurred, draw a Mind Map and the overview that emerges will bring clarity and potential to the forefront.

### ***Quick start: Mind Mapping***

1. Start in the centre with an image of the topic, using at least three colours.
2. Use images, symbols, codes and dimensions throughout your Mind Map.
3. Select key words and print, using upper or lower case letters.
4. Only one word or image to sit on its own line.
5. The lines must be connected, starting from the central image. The central lines are thicker, organic and flowing, becoming thinner as they radiate out from the centre.
6. Make the lines the same length as the word or image.
7. Use colours – your own code – throughout the Mind Map.
8. Develop your own personal style of Mind Mapping.
9. Use emphasis and show associations in your Mind Map.
10. Keep the Mind Map clear by using hierarchy, numerical order or outlines to embrace your branches.

## **Memory and creativity**

What’s memory got to do with it? I have developed a new formula that demonstrates, for the first time, the intimate relationship between memory and creativity, which hitherto had been thought to be separate cognitive skills. The formula is revealed here for the first time in a business publication:

$$E+M=C^{\infty}$$

Both memory and creativity are based on imagination and association. Thus, putting effort into developing your memory will simultaneously develop your creativity and vice versa. Therefore, the formula decodes to: Energy + and into Memory yields infinite Creativity. Whenever you are practising or applying mnemonic techniques, you are at the same time practising and enhancing your powers of creativity.

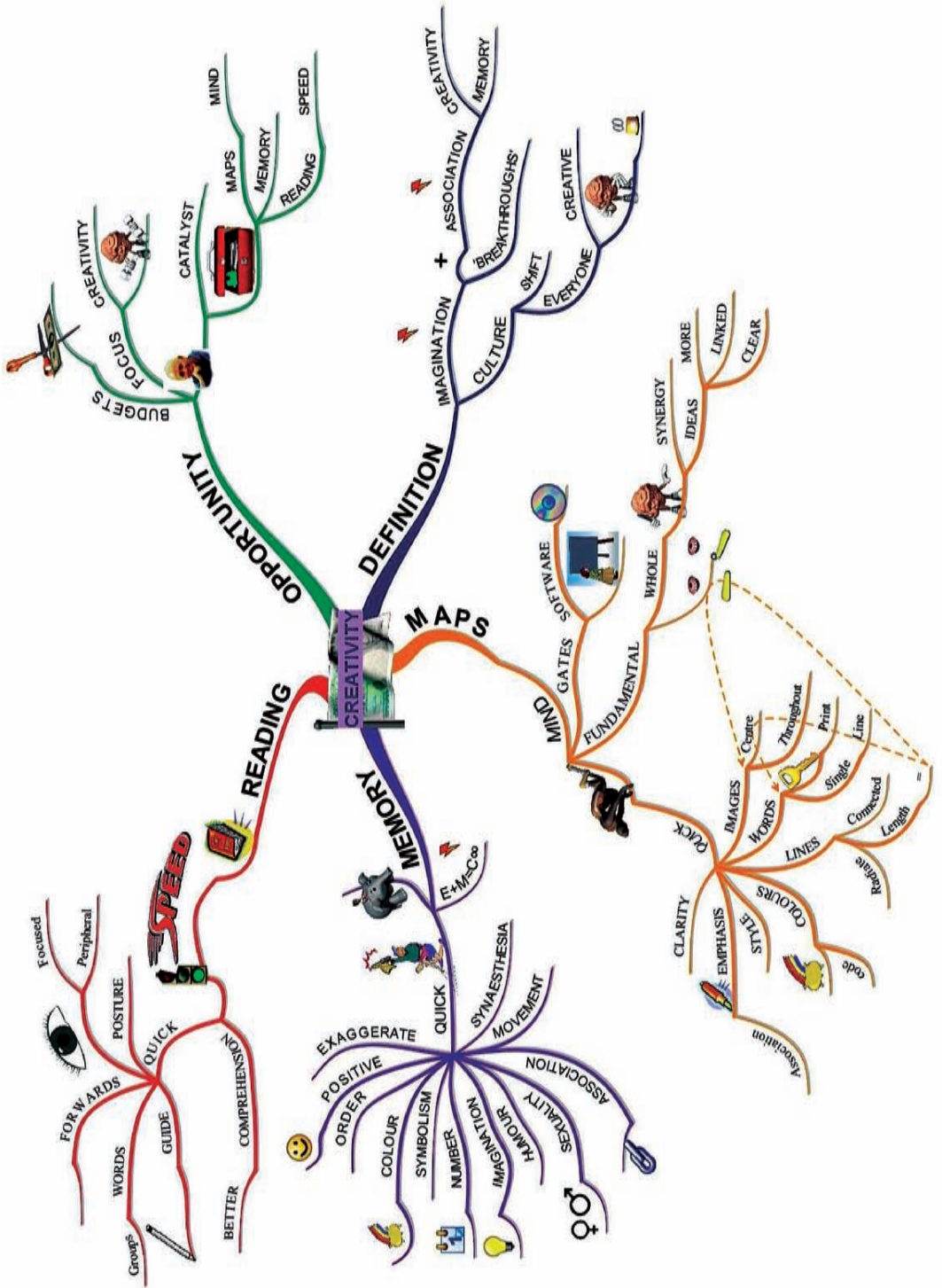


Figure 2.1.1 Mind Map

## Quick start: memory

Use imagination and association plus the following 12 steps:

1. **Synaesthesia.** This is a blending of the senses: sight; smell; hearing; taste; touch; and kinaesthesia (an awareness of your body and its movement).
2. **Movement.** In any mnemonic image, movement adds a huge range of possibilities for your brain to link to (make them three-dimensional).
3. **Association.** Whatever you want to memorize, make sure you associate it with something fixed in your mental environment.
4. **Sexuality.** We all have a good memory in this area, so use it!
5. **Humour.** Make your images funny and surreal!
6. **Imagination.** Albert Einstein said, 'Imagination is more important than knowledge. For knowledge is limited, whereas imagination embraces the entire world, stimulating progress, giving birth to evolution.' The more you apply your imagination to memory, the better your memory will be.
7. **Number.** Numbering adds specificity and efficiency to the principle of order and sequence.
8. **Symbolism.** Substituting a more meaningful image for an ordinary or boring image increases the probability of recall.
9. **Colour.** Where appropriate, and whenever possible, use the full range of the rainbow, to make your ideas more 'colourful' and memorable.
10. **Order and/or sequence.** In combination with the other principles, order and/or sequence allow for much more immediate reference, and increase the brain's possibilities for 'random access'.
11. **Positive images.** In most instances, positive and pleasant images are better for memory purposes, because they make the brain want to return to them. The brain may block unpleasant, negative images.
12. **Exaggeration.** In all your images, exaggerate size, shape, colour and sound.

By practising regularly, you will find that your memory improves dramatically and you will also see the clear link between memory and creativity.

## Speed reading and creativity

So, how does being able to read faster add to your creativity? Speed reading dovetails into Mind Mapping and memory in that once you have acquired the skills to absorb information more quickly, you are even more able to identify the critical issues and to make connections between ideas and concepts. Once again, this system involves using imagination and association, which generates ever more creativity.

Some people might worry that greater speed is gained at the cost of full comprehension. This is not the case. Because of the way your eye-brain system works, the astonishing fact is that the faster you read, the better your comprehension. The whole process means that you speed up in *all* aspects of your reading ability.

## ***Quick start: speed reading***

Reading is the individual's total interrelationship with symbolic information and is a process that takes place on many different levels at the same time. The following is an interesting exercise, which shows that you have the innate capacity to read using your peripheral vision as well as your central vision. By this means, you use all 260 million of your eye's light receivers to communicate with and illuminate your brain. Now, select a page of text and place your finger under a word in the centre of the page. Keep your eyes focused on this word and, without moving them:

1. See how many words you can observe to either side of the central word.
2. See how many words you can make out clearly above and below the word you are pointing at.
3. See if you can tell whether there is a number at the top or the bottom of the page and, if so, what that number is.
4. See whether you can count the number of paragraphs on the page.
5. See whether you can count the number of paragraphs on the opposite page.
6. Can you see a diagram on either of the pages?
7. If there is a diagram, can you determine clearly or roughly what it is illustrating?

By learning the speed reading techniques, you will be able to harness this peripheral vision and read with your brain and not just your eyes.

*Every business needs to work creatively, and it is this creative edge that will deliver innovative ideas, products and concepts that give you the upper hand. I hope my quick-start introductions have given you practical insights into how this can be achieved.*

Tony Buzan is best known as the inventor of Mind Maps. He has worked with: corporate entities and businesses all over the world (eg Microsoft, IBM, Oracle, HSBC, McLaren, BP, Xerox, STABILO, BBC etc); academic institutions; Olympic athletes; children of all ages; governments (China, Singapore, Mexico, UK etc); and high-profile individuals, in teaching them how to maximize the use of their brain power.

A prolific author, he has written more than 98 books, with sales in over 150 countries; his books have been translated into 33 languages. Details of his recent publications can be found at [www.buzanbooks.com](http://www.buzanbooks.com).

Mind Map techniques have now been applied to language learning. Harper Collins have this year published The Collins Language Revolution series, offering beginner-level French, Italian or Spanish. Each pack includes two CDs, a book and access to an interactive website, which aims to test and reinforce the learning.

Tony Buzan is a well-known name on radio and TV, both in the United Kingdom and globally, with a long list of credits. His name is synonymous with

all things cerebral and his knowledge is widely sought after by a media and public perennially eager to learn practical advice on how to improve brain function.

He has also found time in his busy schedule to create the World Memory Championships and is a prize-winning poet and athlete. Tony is living proof that his theories really work. He is a passionate advocate of healthy eating combined with mind and body exercise to achieve the most out of life, and is often to be seen expertly sculling in the early morning mists on the River Thames.

If you would like Tony to deliver presentations to your company, please contact Buzan Training Ltd, Harleyford Estate, Henley Road, Marlow, Bucks SL7 2SL  
Tel: 01628 482765  
E-mail: [tony.buzan@buzanworld.com](mailto:tony.buzan@buzanworld.com)  
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# Innovation Accelerator

## COMPANY

SofTools is a world leader in the development and application of Innovation Management techniques and processes – introducing senior management teams to an integrated approach to innovation and providing systems that give visibility, control and confidence over ideas and innovations.

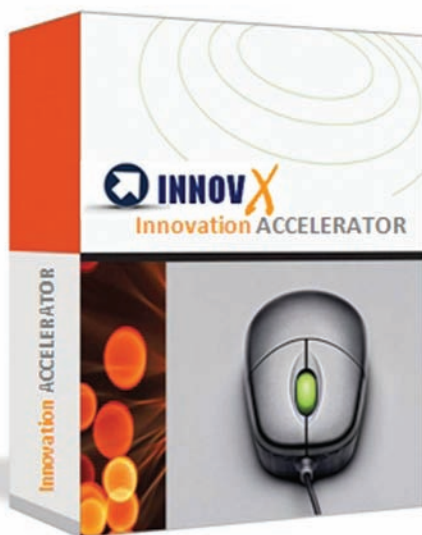
## PRODUCTS

SofTools' web applications integrate a scalable and flexible platform with best in class tools and techniques developed by specialist business consultants – creating leading applications that address all elements of Innovation Management.

## MARKETS

Clients vary in terms of location, size and sector, and include:

*Bayer, BOC-Linde, British Nuclear Fuels, Coca-Cola, Computershare, Defense Logistics Organisation (DLO), Dept of Work & Pensions (DWP), EDS, Henley Management College, LeCroy, NHS, New England Seafood, Nokia, Richmond Foods, SAB Miller, Saudi Arabia Tourist Commission, Springboard and Thus*



**Innovation Accelerator is a leading web-based application that provides tools and techniques to support your innovation framework:**

**1) Create an Ideas Pipeline.** Plan business improvement initiatives within a business context and ensure ideas are linked to both internal Key Performance Indicators and external Market and Consumer Insight programmes. Then initiate, capture, screen, prioritise & track creative ideas through to implementation.

**2) Manage your Innovation Portfolio.** Ensure implementation projects follow a best practice 'stage and gate' process from initiation and 'business case' to development, validation and learning. Then optimise the use of scarce resources to deliver results on-time and in-budget.

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# Innovation management

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*Innovation is probably the hottest topic of today, but why?, asks Andy Bruce at SofTools. Most industries are now highly competitive, with better-informed customers expecting 'more, faster, cheaper and better' all at the same time. Few companies can compete purely on price, and so most now have to differentiate to survive, and to differentiate you must innovate*

Innovation may be the hottest topic in business today, but while everybody talks about it and agrees that it is important, there is no one general roadmap to success. So how do you turn innovation from a marketing concept into something tangible with an impact on the bottom line? There is of course no simple answer, and in order to succeed a different way of thinking and working is required – one that combines analytic and creative thinking, and that focuses as much on implementation as it does on ideation.

Practical innovation is therefore a key concern for many businesses. Increasing global competition over the past five years has brought growing pressures. Western businesses can't make their products more cheaply than the so-called BRICK countries (Brazil, Russia, India, China, and Korea), so what can they do to differentiate themselves from the flood of companies targeting their markets from overseas? The developing countries are hungry, eager, and internet-enabled and pose a major threat, but these expanding markets also present many opportunities for expansion for companies willing to think differently and innovate. Companies in every country and all industry sectors must innovate to survive, let alone thrive.

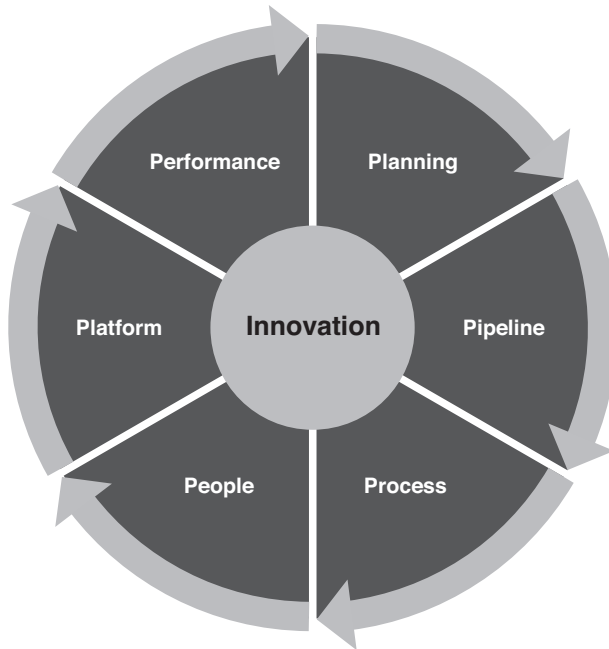
But for innovation to be more than a buzzword it has to be deeply embedded into a business's structure. It was experiences with Nokia and Coca-Cola, in particular, that led me to develop a model for integrated innovation management. While these



market leaders are not necessarily seen as the most creative companies, both have taken a sustainable approach to innovation involving every member of staff actively seeking out new opportunities and new and better ways of doing things.

As you seek to implement your approach to innovation, one caveat here is important: don't expect every attempt at innovation to succeed. Most of the top global companies have had notable failures – think of Coke and their UK launch of Dasani, or Dyson's attempt to move into washing machines. They're not necessarily failures of innovation. Nine times out of ten, the reason innovation ideas fail is because those involved haven't thought through the potential pitfalls and 'what could go wrong'. Often the likely reasons for the failure aren't difficult to spot – a consumer focus group could do it – but, historically, the people in charge of innovation are enthusiastic positive thinkers and don't want to look at the negative side.

I'm going to talk about the *six 'Ps'* that companies that innovate successfully tend to get right: Planning, Pipeline, Process, Platform, People, and Performance. All are elements of an integrated framework – like a chain, it's only as strong as the weakest link.



**Figure 2.2.1** The six Ps of innovation

Taking the six Ps in order, *Planning* reflects the fact that innovation needs to start with strategy. Over the next few years, what are the high-growth or high-revenue areas the CEO wants the company to focus on? What are the success factors something new will need to take into account? For a fizzy drink supplier, for example, an obvious strategic driver would be the trend towards healthy drinking. Planning therefore provides a context or focus for innovation activities, enabling ideas to be generated that address critical business issues.

It isn't, of course, enough just to have an idea. A *Pipeline* reflects the fact that ideas must be captured, organized, screened, prioritized and managed. Unfortunately, this is often done by who shouts the loudest or which senior manager has a pet idea. That's not how you want to choose. Without a structured pipeline, people become disillusioned as they watch the organization follow the wrong ideas.

*Process* is about managing creative ideas through to implementation – what is often called project management in other areas of business. Everybody likes to have a good idea, but somebody has to take it from the generic concept through to successful implementation. This includes everything from assessing the idea's feasibility and creating a detailed business case, to developing, piloting and implementing it – and, after rollout, helping to feed back good experience into further future ideas, or lessons on how not to do it.

*Platform* refers to web-based software that tracks an idea from its time in the pipeline to assessing its value post-implementation. It is not just a task and resource-planning tool; it gives senior managers visibility, control and confidence over the entire innovation portfolio. The software also ensures that all teams follow a common approach based on best practice, and provides the status reports needed at the regular review meetings.

An effective innovation framework also needs the commitment of key stakeholders: *People*. Senior managers need to be open to new ideas, as innovation thrives only in a supportive culture. There needs to be a champion who drives every idea through to completion, and an executive sponsor who allocates the necessary budget, time and resources, and motivates the team. And at all levels of the organization people are effectively the eyes and ears of the business, constantly scanning for market trends and competitor activity.

I like to cite Nokia, as a leader in the area of innovation. Mike Butler, then managing director of the Nokia UK Product Creation Centre, set only two ground rules for the 18 people who took part in an innovation workshop: 'no ideas around time travel or teletransportation, have fun' – he then walked out, leaving the team to get on with it. Out of that initial workshop came ideas that now, 10 years later, are helping convert Nokia from simple mobile handsets to complex lifestyle communications devices. Current new services such as making credit card payments via mobile phones and downloading music or games onto phones were ideas on the table in that workshop 10 years ago.

*Performance*, the final P, drives all of this. The critical success factor for integrating and introducing innovation is how you monitor performance – defining the key innovation performance indicators, agreeing who sits in the monthly review meeting and focusing the agenda on innovation. Too often, today's managers are too fixated by the company's profit and loss statements, the information that impresses actual or prospective shareholders. But financial reports tend to focus on past performance, which I liken to trying to drive a car by looking in the rear-view mirror. While keeping an eye on the current financials is important, future success depends on getting your plan for innovation right and implementing it effectively in order to keep your organization that one step ahead.

Innovation needs champions, people who will drive through the problems and setbacks, convince sceptics of the need to do new things and make a good idea produce results. Perhaps you are that champion: perhaps just for your team or division of your company, or perhaps for the entire organization as the chief innovation officer. If so, you have an exciting time ahead. Remember, once a great idea is recorded it can never die; but there's a lot to get right before you can be sure that it will fly.


Andy Bruce is widely acclaimed as an authority in 'innovation management' – covering the creative and innovation process from ideas to implementation. In his role as chief executive of SofTools he has worked with corporate and public sector clients over the past 15 years to help improve performance and profitability through the introduction of what he refers to as an integrated innovation framework.

SofTools, Greenlands, Henley-on-Thames, Oxfordshire RG9 3AU

Tel: 01491 412 400

E-mail: [Andy.Bruce@SofTools.net](mailto:Andy.Bruce@SofTools.net)

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## A wealth in ideas

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*Difficult and expensive? Not necessarily. Jacqueline Needle of Beck Greener discusses how enterprises can use intellectual property to their advantage*

In 1945 Sir Alexander Fleming, together with Sir Howard Walter Florey and Ernst Boris Chain at the University of Oxford, received the Nobel Prize for their work in discovering penicillin. At the end of the war, as a direct result of the work at Oxford, commercial quantities of the antibiotic were available in the United States and it was accessible to civilians in Australia. Unfortunately, the British public were denied access to the drug for several more years. Of course, the Australian-born Florey had moved to work in the United States and had patented manufacturing methods for the drug. There were no patents filed in the United Kingdom. It is said that scientists in Oxford believed that the patenting of advances in medicine was unethical. The decision not to patent lost to the United Kingdom the control of the drug, and also the immense revenue generated by the manufacture and supply of the drug.

Unfortunately, there is still a belief that intellectual property (IP) rights generally, and patents in particular, are:

- expensive;
- irrelevant to small and growing businesses; and
- difficult, if not impossible, to enforce.

It has been established that only 30 per cent of smaller companies in the United Kingdom, France, Germany, Italy, Spain, the Netherlands, Sweden and Finland have ever applied for a patent.

However, James Dyson founded a company which, because of his successful use of the patent system, was enabled to manufacture and sell vacuum cleaners particularly profitably, and in the process he became a millionaire. Dyson licensed his patents to companies in other countries, most notably to a company in Japan, such that the worldwide manufacturing capacity for his cleaners was enhanced. Dyson was also able to keep versions of the vacuum cleaner made by competitors, most notably by Hoover, off the market.

## Difficult and expensive?

Individuals and companies can succeed and make money without involving themselves in IP issues. However, such an approach is not risk or expense free. There are many examples of companies who have ignored IP completely only to be accused of patent or trademark infringement. The champagne at a product launch party can taste very flat if an unexpected court injunction immediately stops sales of the product. The expense of dealing with such accusations will be significant, and against a background where there can be no income from the product. Even worse, this unexpected expense could probably have been avoided.

IP does cost money, and if the issues are not understood, it can appear difficult. However, without IP, creativity cannot be captured and protected and it is this protection that enables ideas to be turned into wealth. The difficulties disappear with knowledge, and Mandy Haberman, the inventor of the 'AnyWayUP' cup, has criticized SMEs for not having at least one person in authority who has been educated in IP.

## Free IP rights

Not all IP rights cost money. Copyright and unregistered design rights arise automatically. A company needs to adopt 'good housekeeping' and to keep the original software or design documents in a systematic way so that the date of origination can be established, and the creator or author identified. Any proprietary information of commercial value should be identified and kept confidential. Employees should be made aware that such confidential information must not be divulged. Measures may be taken to restrict the availability of confidential information within a company, and departing employees should be reminded that their duty of confidentiality will remain even after they have left. Both the recipe for Coca-Cola and the exact composition of the batter for Kentucky Fried Chicken are still known to only a handful of people.

The company also needs to ensure that it owns rights it uses in its day-to-day business. For example, a company commissioning a logo design for its own use will not automatically own the copyright in the resulting logo. A specific agreement will be required to transfer the copyright from the designer to the company.

Patent Office records can be freely searched on the internet for information about the trade marks which have been registered. A company can avoid conflict problems

by ensuring that their proposed trade mark or logo is not already registered by someone else.

## Irrelevant for SMEs?

All businesses, regardless of their size, trade, have competitors, and seek commercial advantages over those competitors. A small company coming into conflict with the rights of others does not have the commercial ‘muscle’ that large corporations can use to force a settlement. IP rights might be the only weapons an SME can deploy in the event of a conflict. Effective use of IP could be vitally important to SMEs.

An SME using IP effectively will:

- have a person in authority who has adequate knowledge of IP issues;
- have good housekeeping routines in place to safeguard rights; and
- will seek professional assistance when required.

## Patenting costs

A majority of those made rich with the assistance of IP, such as James Dyson, and Ron Hickman, the inventor of the ‘Workmate’, have had ideas or inventions which have been patented. A patent can only help if it is valid, and a valid patent can only be obtained if the patent application is filed before there has been any public disclosure of the invention. It is essential that any new idea of potential worth is kept totally confidential to the company during the early stages of design or development. At some time a positive decision should be made as to whether patent protection is likely to be required. If it is decided that patent protection is not warranted then public disclosure can be made, but it should be realized that putting the idea in the public domain also dedicates it to the public, as the right to obtain patent protection in most countries has been given up.

It does cost money to pay professional patent attorneys to register trade marks and to draft and file patent applications, but the potential rewards are high. For the price of one full-page advert in the *Daily Telegraph* it would be possible to cover the fees arising over a five-year period to obtain grant of a patent for a new invention in a selection of five or six European countries, in the United States, and in Japan. The newspaper may be in the bin within 24 hours, while the patents could provide a platform for profitable trading for 20 years.

## What protection should be sought?

It is important to get the patenting decision correct, especially if a project is thought to be of potential value to the company. Not only must an invention be new to be patentable, it must also be non-obvious compared to what is already known. However, many inventors will wrongly define the final result of their labours as

obvious, perhaps because they see it just as the consummation of days or weeks of everyday work.

The patentable invention also has to be of industrially applicable subject matter and not in the list of entities which are explicitly excluded from patent protection. The inexperienced are often heard to exclaim with certainty: ‘you can’t patent that’.

If the invention has taken time and money to develop, will take further resources to get into the market, and is forecast to have a future, it would be wise to take professional advice. In such circumstances there is a very high chance that the invention will be patentable. Even if the patent attorney advises that an invention is not generally patentable, other protection options may arise. For example, the significant differences between European and US patent laws mean that products which cannot be patented in Europe can be patented in the United States.

Alternative forms of protection, such as a Community-registered design, may also be available and might be commercially useful.

Where products and services are to be advertised and developed it is generally a good idea to register the associated brands and logos. Now it is possible to file applications for trade-mark registrations which cover the whole of the EU or a raft of countries worldwide. This has made trade-mark protection across countries readily affordable.

If an innovative product is placed on the market with a strong, and protected, brand, a reputation is built up in that brand. A competitive product might be seen by the public as an imitation, and if the original brand is strong, the competitive product is perceived as inferior. In this scenario, some control of the market can be gained even where there is no patent.

Patent attorneys are generally highly conscious of commercial realities and can suggest ways to get some protection in the marketplace even where the budget is small. However, a company with forethought might devote resources to an IP fund. This growing amount of capital can underpin the cash flow of the company in the early days, and finance IP costs at a later date. There are also grants and awards available for development and patenting. The British Government, for example, provides R&D grants for projects of different sizes and EU money is also available.

## **IP rights are difficult to enforce**

It is commonly said that patenting an invention is a waste of time because the company will not be able to afford to enforce the patent. However, fewer than 1 per cent of all patents are involved in any dispute, and it is the existence of the patent, rather than of the invention, which provides the wealth-generating opportunities.

If the new product is patented, or is the subject of a patent application, the majority of businesses will pause before rushing to develop rival versions. When Xerox introduced the first generation of copying machines, they had a worldwide monopoly for the 20 years for which their patents existed without having to take action for patent infringement. As soon as the patents expired, numerous competitive photocopying machines were launched.



Jacqueline Needle, a partner of Beck Greener, is a well-known member of the profession and is one of the select group of patent attorneys in the United Kingdom with a Litigator's Certificate which gives her the right to conduct litigation in IP matters in all of the English courts. She is an electrical and electronic engineer and experienced in patent drafting and prosecution.

Further details: [www.beckgreener.com](http://www.beckgreener.com)

# Open innovation

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*The web is creating a new model for generating high-growth ideas, but is it a paradigm shift or a licence to exploit, asks Maxine Horn at British Design Innovation*

Whatever you read these days, somewhere will be an article on the phenomena created by open innovation – even the *Big Issue* carried an interview with Charles Leadbeater on the launch of his book *We Think*.

## ‘We think’ vs ‘paid to think’

There are two approaches to the collective brain driving open innovation. The first is democratized opinion forming brought about by the rise of social networks such as Facebook, YouTube and MySpace.

The second is professional brains brought together through structured business networks led by the global giants such as Unilever, Boots and Procter & Gamble who have sought to utilize professional communities and openly state that they are seeking to discover 50 per cent of innovative ideas outside of their own R&D departments.

P & G gained extensive media coverage from investing in British Design Innovations’ Open Innovation Challenge, developed in partnership with NESTA. The Innovation Minister, Ian Pearson, turned out to launch the programme in September 2007 and as we near the end of that programme all parties begin to consider the lessons learnt and rewrite the rules of open innovation as it applies to the professional ‘paid to think’ marketplace versus that of the ‘we think’ social networks.

While the final outcome of the Open Innovation Challenge cannot be predetermined, we can say that at least one of the final four who made it to the Procter & Gamble presentation has discovered a breakthrough in the fabric care marketplace that has got P & G very excited. If it comes to market it will be a win-win scenario for P & G, the design firm and millions of consumers.

## The focused collective brain vs the loose collective

What the Open Innovation Challenge may prove is that this breakthrough is very unlikely to have happened through unstructured social networks or through loose competitions. It will owe its success to a number of factors, such as collaborative innovation – or what is being described as the collective brain.

All four finalists put together small teams of specialists, including designers, scientists and technologists, who worked towards a common commercial goal supported by fixed milestones, feedback and seed funding.

In an open marketplace with large, disjointed crowds intermittently working together without deadlines, finance or intellectual property agreements in place, it is highly unlikely that P & G would have uncovered more than a handful of worthy ideas after sifting through hundreds of off-the-mark and off-the-wall submissions. Under such circumstances, it is also unlikely that a means to remunerate collective problem solving could have been established.

The point here is that there exists a world of difference between the professional ‘paid to think’ marketplace and the experience and value they can bring to corporate open innovation and that of an unstructured ‘we think’ crowd. The society-led approach is likely to come at innovation from an ‘I want one and so do my friends’ position, leading to incremental improvements to existing products. Few will have the knowledge of what it takes to bring a new product or service to market and fewer still will have intellectual property exploitation experience. Thereby the economic model surrounding social open innovation is a precarious one.

Even the collective brains operating in the professional ‘paid to think’ marketplace need assistance to ensure that the IP they create and resulting patent cannot easily be circumvented by those who openly sought innovation from them.

## Establishing new rules

The Open Innovation Challenge also highlighted that the rules that apply to the professional networks need to change. Corporates are still trying to find their feet in this new open approach. For decades, innovation has been shrouded in secrecy in R&D departments where they seek to gain an edge over their competition. Sharing information and treating incoming innovation as an equitable partnership of minds does not come easily.

There remains a culture of supplier versus corporate that needs to shift before the benefits of utilizing external professionals to join the collective brain can reap the benefits for all parties.

Some corporates are welcoming open innovation but are also wanting a ‘cake and eat it’ result. There remain two options for corporates.

If they do not want to share the risk and rewards they can commercially engage the professional ‘paid to think’ marketplace. They can set a brief and they can pay for solutions and buy-out the intellectual property arising by negotiation.

Alternatively, if they wish to engage the professional market and take advantage of the collective brain without advanced fees or risk they need to be prepared to negotiate a more equitable share of the rewards with the professional originators.

Open innovation should not be utilized purely as a means to seek to gain access to ideas and solutions from highly experienced designers and scientists if the first principle is to seek to circumvent patents. If that happens it will only serve to work against the benefits of, and crush the spirit of, open innovation and close up the marketplace faster than a clam shell.

Competition between the major corporates will remain unchanged but the new advantage is the collective professional brain joining forces with corporates to speed up the rate of innovation and/or reduce the risks and costs. Thereby it would make sense for all parties to benefit in a more equitable way than the current culture allows.

The social networks and its ‘we think’ opinion can act faster than a printing press and will continue to have a profound value and impact on the future. In areas that affect society at large, such as energy resources and sustainability, the collective societal brain is of critical importance. It should also be noted that collective opinion can act in both a positive and negative way as it chooses.

In that regard, opinion-based problem solving cannot replace the collective professional brain that has a commercial vested interest in solving the problem.

## Commercial vs societal

The differences between the ‘we think’ and ‘paid to think’ camps need to be recognized and as such new economic rules of engagement have to be established.

Wikipedia appears to have a rose-tinted-spectacles view of open innovation and the value and power of social networks benefiting commercially from opinion-led problem solving. Currently these networks have no proven economic frameworks or intellectual property rules in place.

The professional networks are dealing with the David and Goliath syndrome that comes with the territory when individuals and small companies seek to add value and negotiate with the corporate giants. And the giants themselves are still struggling to work in partnership with, and share rewards with, professional originators. To some they are simply viewed as vulnerable fair game in a hugely competitive marketplace.

It was the professional brain of Tim Berners-Lee and his remarkable non-competitive generosity that enabled open innovation both at social and professional level to exist. We all need to keep that in mind when exploiting the benefits of open innovation and ensure that we take advantage of it in the most appropriate way.

Maxine J Horn is CEO of British Design Innovation. BDI is a not-for-profit yet commercially focused organization. It brings together the ‘thinkers and linkers’ in the innovation space, including strategic designers; brand and business owners; academics; and dealmakers. These experts exchange knowledge and ethically and safely create, develop and trade intellectual property (IP).

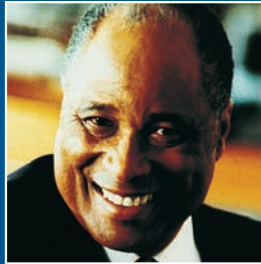
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# Knowledge transfer

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*Find the expertise to take you to the next level by building collaborative relationships, says Dr Debbie Buckley-Golder, director of the Knowledge Transfer Partnerships Programme*

There is increasing emphasis, both within the United Kingdom and across the European Union, on the need for a culture of innovation within the business community, in order to sustain levels of economic growth in the face of increasing competition from developing economies across the world. There is also much talk of the ‘knowledge driven’ economy and a need for the exertion of ‘business pull’ on the research undertaken within our academic institutions. This is not to say that UK businesses lack the drive for innovation and the acquisition of new knowledge, far from it, but rather that, within a country rich in academic research and among the world leaders in many disciplines, the opportunity for businesses to work in true collaboration with academia, in order to influence the direction of future research and teaching, as well as to tackle current and emerging commercial, cultural and social challenges, should be grasped wholeheartedly.

Innovation is the adoption and conversion of ideas into economic and social benefits. The ideas may be new to the user but, in many cases, will be common elsewhere, in other situations or applications. A key component of innovation is the knowledge, technology or skill required to identify the new idea and exploit it for the development or improvement of a business’s products, services, markets or processes. This expertise can be found in abundance within the UK knowledge base, its universities, colleges, public and private sector research and technology organizations, and can be accessed by potential users (business, public and ‘third’ sectors) through a process commonly known as ‘knowledge transfer’.

Knowledge transfer is often interpreted very narrowly as the exploitation of intellectual property through joint ventures, licence agreements, patents, spin-outs, spin-offs etc. However, this overlooks the substantial opportunity for knowledge transfer through the development of strategic, collaborative relationships between organizations and the individuals within them. Knowledge transfer is essentially about people and communication – whether through written material, collaborative working or structured dialogue – and the process can be considered at two levels. One is the strategic level, at which the right environment must be created, and means of communication established for effective engagement and dialogue between the knowledge base and user communities, so that the current and future needs of individual user groups can be understood and appropriately met by the knowledge base. The second level is that of the ‘individual’, at which the specific needs of a business, or enterprise, are analysed, understood and acted upon. It is at this level that knowledge transfer actually occurs, whether through collaborative research and development, individual structured knowledge transfer projects, consultancy, the exchange of staff, collaborative training or even the simple exchange of written material. To quote Dr Graham Spittle, chairman of the government’s Technology Strategy Board, ‘knowledge transfer is a contact sport’.

Within the United Kingdom, businesses of all sizes and sectors can access Europe’s leading knowledge transfer programme, Knowledge Transfer Partnerships (KTP), which is led by the Technology Strategy Board with 17 other public sector funding organizations.

Knowledge Transfer Partnerships (KTP) is Europe’s leading programme helping businesses to improve their competitiveness and productivity through the better use of knowledge, technology and skills that reside within the UK knowledge base.

KTP aims to:

- facilitate the transfer of knowledge through projects undertaken by high calibre, recently qualified people under joint supervision from a company and an academic institution;
- provide company-based training for recently qualified people to enhance their business and specialist skills;
- stimulate and enhance business-relevant training and research undertaken by the academic institutions;
- increase the interaction between businesses and academic institutions, and awareness of the contribution academia can make to business development and growth.



The Technology Strategy Board is a business-focused organization dedicated to promoting technology-enabled innovation across the United Kingdom.

Its vision is for the United Kingdom to be seen as a global leader in innovation and a magnet for technology-intensive companies, where new technology is applied rapidly and effectively to create wealth.

Established as an executive body at arm's length from government in July 2007, the organization is sponsored by the Department for Innovation, Universities and Skills (DIUS).

The Technology Strategy Board invests in research and development; builds partnerships between business, research and government to address major societal challenges; and runs a wide range of knowledge exchange programmes to help innovation flourish.

KTP has operated for over 30 years, providing grant support to collaborative projects between individual companies and academia, addressing issues of strategic importance to the business in order to improve their productivity, performance and competitive position. In 2006/07 KTP supported a portfolio of 1,157 individual projects, of which 78 per cent involved SMEs and, as a result of the government money committed during the year, UK companies stand to benefit from an overall increase in annual profit before tax of around £100m, over 1,400 new jobs created and over 6,200 company staff trained.

One of the key strengths of KTP is that projects are driven by the needs of the participating business, and proposals are supported by a commercially structured business case. In 2006 the EEF in their report entitled *New Light on Innovation* (<http://www.eef.org.uk>) highlighted seven barriers to collaboration for the purposes of innovation, which were identified by individual businesses:

- finding the right partner;
- understanding our business;
- managing costs;
- relationship management;
- keeping control of ideas;
- legal form of the relationship;
- intellectual property rights.

KTP is a dynamic model and has been developed and honed, over the years, to explicitly address each one of these perceived barriers. This has, surely, contributed to the sustained success and increasing demand for the Programme from business and academia alike.

One company that has grown significantly as a direct result of the knowledge transfer achieved through their KTP project is Caledonian Aerotech Ltd. The company has carved a lucrative niche in the multi-billion-dollar global aerospace market by recycling the special alloys used in the production of aircraft engines, land-based

turbines and in the petrochemical industries. A core process is recovering the metal left after machining, which is then cleaned, graded and prepared to be returned to specialist melters for reuse.

Through the KTP project, Caledonian Aerotech Ltd was able to identify and implement a means of reducing the environmental impact of this cleaning process, while improving the effectiveness of the process and realizing large cost savings. The KTP also led to the company's enhanced credibility among large multinational companies and opened opportunities in a previously closed market in the United States. Following the success of the KTP project, 19 new staff have been employed.

Hugh Stewart, Chairman of the company, commented, 'The KTP provided the company with a focus for research, development and innovation... we got clarity and projects started to happen. Getting involved with KTP... had the effect of broadening our horizons and I have no doubt it will help us enter new markets.'

In the autumn of 2007 the government accepted in full the recommendations of a review undertaken by Lord Sainsbury of Turville of the UK science and innovation system, in which he acknowledged the sustained and measurable impact of KTP by recommending a doubling in the number of KTP projects over the three-year period to 2011, as well as the development of flexible, shorter-term projects which might be of particular interest to smaller businesses with little previous experience of working with the academic community.

If you would like to take advantage of the expertise and funding available through KTP please visit [www.ktponline.org.uk](http://www.ktponline.org.uk) or call the KTP helpline on 0870 190 2829.

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# Gaining market share

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# Brands: from local to national

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*Identify your core and make sure you appeal to it, says Enda McCarthy, president, Draftfcb London*

If you think about all the great brands out there in the world, you should be able to recognize one or two common characteristics. There's usually a simple truth at their heart, a principle that got them off the ground in the first place and has created a strong core around which their successes have been built.

More often than not, the reason behind this is that the founders started off by doing something in which they truly, passionately believed. Just like when you were at school, it's an awful lot easier to become good at something when you enjoy doing it; working at something you love is energizing, and working at something you understand from top to bottom gives you some unique insights into your market.

As a small business, looking to take your brand from a local up to national presence, there are some great examples out there that you might seek to emulate. I'd like to take a closer look at one or two of them here, as well as a glance at today's marketing landscape, which has changed almost beyond recognition in just a few years, bringing new challenges with it.

## **Knowing your audience, and staying true to yourself**

A major benefit of doing something you love is that you are almost certainly part of your audience. The people you are trying to reach – your customers – will share your

own habits and interests, at least in part. But whether they're your kind of people or not, identifying your audience and locating them should be the first big step in your marketing strategy.

One excellent example of a small brand that has successfully achieved this is Howies, a fashion brand founded in 1995 by a couple working in advertising, slightly bored with their jobs and keen to do something more fulfilling. Howies chose to focus on sportswear, aimed largely at the growing market of mountain bikers – fellow participants in a pastime they enjoyed as often as possible themselves.

Starting in their living room, working in their spare time, the founders carved a small niche for themselves with a mail-order business. They created a small number of T-shirt designs, placed an ad in a mountain biking magazine, and watched the orders come in.

Howies then embarked on a period of gradual growth. New people joined, bringing new insights into other related areas – when a skateboarder came to work with them, they branched a little into skatewear, for example; a BMX fanatic came on board, so they turned to that sport. But they never moved too far from their core – each departure made sense.

Eventually the founders quit their jobs and Howies became a full-time occupation. By this time they had honed a highly distinctive tone of voice. As an early customer, I remember receiving one of their mail-order catalogues. The brand's knowledge of its audience was so clear, it was difficult not to be impressed – the photography oozed easy charm and the language was as natural and laid back as if you were receiving a letter from an old friend. You called the company and there was every chance the founder would answer the phone. You could even watch your order being packaged up via a webcam in their warehouse.

Another string to the Howies bow was its environmental stance, which was very much ahead of its time. The catalogue and website were crammed with thought-provoking facts about global warming, landfill and other issues around sustainability. They walked the walk too, with carefully thought out sustainable business practices that never betrayed their ethical stance. Once again, they knew their audience, but they also clearly believed in their mantra. This has been maintained ever since, as the company has grown.

Eventually, after careful screening of several suitors, Howies sold a stake to Timberland, which enabled smoother running, further expansion, the opening of a shop in London's Carnaby Street and more purchasing power. At its heart, however, the brand and the company remained more or less the same in every respect – the same people in the same factory and offices, and the same principles that its customers held so dear.

If you look at what Howies has achieved, there are clear and valuable lessons at every turn.

### ***Believe in your brand, and stick with it***

To begin with, there's the aforementioned passion. Believe in what you're doing and people will tend to believe in you. Secondly, the story of Howies shows the value of remaining true to that vision.

## ***A good story***

From a marketing perspective, there is great strength in a good story, and Howies has had one from the beginning. If that story is well told, even better, and the brand's tone of voice has helped to maintain that story's momentum and underline its sincerity. Customers of Howies are incredibly loyal and, more often than not, have joined the brand on its journey for the long term, mainly because they have felt like there was a relationship there.

## ***Don't grow too fast***

The brand has also grown fairly slowly – which can be crucial for a fashion brand, but equally applicable to other markets. It's easy and tempting to go for broke, but your brand will often suffer as a result, so it's worth resisting. Twenty years ago Caterpillar, a brand with fantastic heritage outside fashion, made some incredibly desirable work boots; then they suddenly appeared in every UK high street in the rather less than cool River Island. Their coolness evaporated, and their demise was swift.

## ***Preserve your integrity and choose your partners carefully***

Howies, on the other hand, has preserved its integrity and reaped the benefits. Even when it eventually looked for a parent, the one it found was only selected on the basis that it shared the core values of the brand and, wisely for all parties, would allow it to remain true to its principles, which were clearly essential to its success.

This point of remaining true to your values as you expand is hugely important. Look at any small business of the past 50 years or so and you'll see a similar tale. Smoothie company Innocent has maintained the integrity of its packaging, product sourcing and tone of voice. It has kept its distribution fresh and its story has remained consistent. It's a young brand with incredibly strong values.

Cobra beer is another wonderful story, a brand that has grown from its founder literally driving the product around to Indian restaurants in a battered old car, on the proviso that this 'less gassy' beer was perfect with Indian food. Interestingly, however, its latest advertising has begun to deviate from that story. Now it is sold in pubs, the Indian restaurant connection makes less sense, but will the brand suffer as its story is diluted? It will be interesting to watch.

## **The demands of marketing today**

For anyone looking to take their brand to the next level, the marketing landscape today presents some unique challenges. Communications no longer works in the way it did even five years ago.

Thanks to the internet, and incredibly media-savvy consumers, people now want to buy into something, rather than be sold it. They want social currency, not just a product. If anything, the product is now a way into the brand, rather than the other way around.



For these reasons, it is now more essential than ever to go to your audience and find out what they want. Seek out feedback, because word of mouth is vital. When you consider that close to 182,000 new products were introduced globally in 2006, including 105,000 food and drink products – around 300 for every day of the year\* – the need to carve your niche among the clutter becomes paramount. Finding your core audience and growing from there is a good way to start, but you must make sure you listen to them and respond to their needs.

People will also tell you about the need to entertain people – pointing to YouTube and the appeal of viral communication. But when around 200,000 videos are uploaded to YouTube each week, you will need to be pretty memorable to stand out, so be realistic. Ask yourself, why should your audience bother to respond to you?

In today's communications market, where brand building online is essentially becoming the de facto route to market, all activity needs to be built on the twin pillars of accountability and creativity. If you are not accountable you will not be able to find your audience. If you are not creative, then even if you do find them they will not pass your message on.

If you've a budget, make sure you use it wisely, on an audience that will offer real returns – identify your core and make sure you appeal to it. Brave creative will also help make that budget go further, so don't shirk from a wild idea, as long as it makes sense for your brand.

Ultimately, your marketing strategy needs to engage the right people. It also needs to protect your brand and remain true to its story. Good things often take time, so take care along this route, be patient, and the rewards are there.

*\*Mintel Global New Products Database*

Enda's advertising industry path began at Publicis as a graduate trainee. His career has since taken him to renowned agencies such as CDP, Euro RSCG and J Walter Thompson. Along the way he has worked on some of the world's most famous brands – Nike, Honda, HSBC, Kellogg's, Merrill Lynch – and with some of the industry's best people. Enda became managing director of FCB London in February 2006, before being made president of the merged Draftfcb London in June 2008.

## A brand to last

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*John Hall, managing director at Curious, discusses how to give your brand the strength, integrity and vitality to withstand any changes in the business*

Rather like great leaders, great brands tend to be born rather than made. The qualities that will make your brand strong and successful are there right at its conception, whether innate and yet to be exploited, or loud, proud and plain for all to see. But change is also a natural feature of business. Every company is subject to market forces and the shifts of the commercial environment. Making sure your brand is going to be strong enough to withstand those shifts is not always straightforward, but knowing exactly what your brand is about, and how that reflects your business, will help enormously. So, the starting point when thinking about how you might take your brand to the next level should be a careful assessment of its qualities. Put simply, have you got something sufficiently robust to make the grade? Is your brand well conceived?

One problem for many businesses comes from making those judgements (or not). Close proximity to something can cloud objectivity and make the above questions tricky to answer. With this in mind, we've outlined three stages to help you. These should go some way to ensuring that your brand is up to the task in hand, keeping pace with your growing business and, crucially, making sure that you don't lose sight of what you set out to achieve when you set up shop in the first place. Follow them, and you should have all you need to chart your course to a successful, strong brand with the longevity to match your business.

## First off, know who you are

If you think back to the original inspiration for your business, there's a good chance that it involved spotting something wrong in the world out there; something that was missing, something you wanted to change. We're all in business, as they say, to make money, but do you have a higher-level goal that guides what you are trying to do? So focus on that for a moment, and think about how you set about righting that wrong. This is your company's mission – the reason it exists at all, in fact. And if you haven't worked this out already then you'll need to do it as your company and your brand start to grow up. So it's important to keep in mind exactly how you are going about making things better.

Aside from this mission, your company will also have a set of values you hold dear. Ask yourself, what is important to my business? Think about this at a functional level, in terms of things such as your product or service – what is it about what you create or the way you go about your business that is crucially important to you? Then think about it from a more emotional standpoint – how do you want to be perceived in the market? Do you want to be seen as caring, or perhaps forward-thinking or trendy? These are qualities that set you apart from your competitors and mark out the personality of your brand. If you get them right then you won't need to change them. They become part of your success. They're what you stand for.

## Second, know where you want to go

Like most things in life, it's important to know where you want to end up. Setting yourself clear goals and end points is a crucial part of a successful business, and this applies to your brand too. Think carefully about your destination and how you intend to get there, and then place this at the core of everything you do. But don't keep it to yourself. It's important to make this goal known to all in the organization, so make sure everyone internally buys into this idea and understands it fully. Having everyone singing from the same hymn sheet is a vital part of creating a consistent brand. Your brand isn't just a logo or an ad. It's the way you, your company and your people behave and go about things. And the smallest part can let down the whole – as anyone who has had a bad experience with, say, a call centre will tell you.

It is also vitally important to understand your customers, as well as what motivates them. When you're charting the course of your business, you need to be sure that your customers want to go there too. If that isn't the case, you will need to devise ways of attracting new customers along the way, as this will become critical to your growth plans. There is no point in becoming something that will become irrelevant to your core customer base, so tread carefully here.

Keeping a close track of how your business is evolving is also an important task. If your brand and your business are growing apart then they will cease to function as an effective whole, so review your mission and your values – the things you stand for – as you move along your chosen path. If you are deviating too far from what you set out to do, then you need to either set yourself back on track, or evolve your brand in a way that makes sense to the new realities of your business.

### Third, identify any areas of ‘flex’

As your brand evolves and changes, you will be confronted by the need to make certain choices. Deciding which aspects of your brand should stay and which should be jettisoned to make way for new qualities isn’t easy, so you need to make sure you get it right.

It is well worth taking steps to identify the aspects of your business that you are prepared to shape and evolve as early as possible in the life cycle of your company. Are you likely to want to change your distribution channels, or perhaps your method or place of manufacture? Will you consider diversification into new markets or product sectors? Are you likely to pursue different kinds of customers? These are the kinds of question you need to be asking yourself, and if the answer to any of them is ‘yes’, then you will also need to think carefully about the aspects of your business that are absolutely sacred. In every successful brand there are certain core physical and emotional attributes that are indivisible from the overall picture, so it is important to recognize those early on and guard them carefully. It is these that will give your brand its unique personality and its strength.

Above all, you must know the inherent strengths of your business and the qualities worth preserving, as these are of pivotal importance to the vitality of your brand. Growth and change should not be about sacrificing the things that define who and what you are. The aspects of your business that define its personality are the very essence of your brand, so protect them, care for them, and only look to change them if it makes absolute sense.

### Measuring all of this

Of course, underlying all of these three key points is a need to measure what you’re doing, in order to see what works and what doesn’t. This means setting some effective metrics in place. If you’re going from ‘A’ to ‘C’, and you want to know about ‘B’, then metrics will be a big help.

As your business grows, the thoughts I’ve outlined here will help you keep track of the way it is changing and evolving. What your brand says about your business needs to reflect reality, otherwise its promise will be let down by the customer experience. Essentially, your brand is a manifestation of your business and all that goes with it, from the products or services it offers, through to the ways in which you go about doing what you do, and the people who do it. Make sure that the two not only match up, but will also remain compatible in the long term, and you should find yourself with a brand of real strength, integrity and vitality.

John’s career spans three areas of business and over 20 years. He has occupied senior positions in advertising agencies, a major brand consultancy and client-side. John set up Curious with Peter Rae in 2002, following a three and a half year stint as head of brand strategy at Siegelgale. Prior to this, he worked in

advertising. John has worked across a range of clients and sectors in the United Kingdom and overseas, including ABN AMRO, Cahoot, Norwich Union, Seiko, BP, Easy Jeans, Lloyds TSB, Fujitsu and Black & Decker, as well as The Economist, International Herald Tribune and Marriott Hotels.

# Does **your** personality win you **business**?



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Stop talking - Start communicating

# Pitching and presenting

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*What it means. Why it matters. How to excel at it. Nick Smallman at Working Voices explains*

Winning the business, making your case, building relationships, instilling confidence, handling difficult people – they're all jobs where, consciously or not, you're reaching out for your face-to-face pitching and presenting skills. You're reaching out for the skills that give you the Personal Impact necessary to get other people buying into what you're selling.

To most of us the word 'pitching' in this context is entirely sales related and means promoting or plugging a service or product. No question, it certainly does mean that. To most of us the word 'presenting' means little more than standing up before colleagues and delivering a PowerPoint slideshow. No question, it certainly does mean that. What I'm talking about here, though, are wider definitions. Where pitching is concerned, I'm talking about creating:

- i) interest in your message;
- ii) understanding of your message; and
- iii) action as a result of your message.

And where presenting is concerned, I'm talking about the way you deliver and explain that message.

I have to start from the premise that you don't talk rubbish (ie your content is worth listening to) and that you don't sell rubbish either (ie your product, service, idea or argument is worth knowing about), my point being that presentation can only achieve so much. But assuming we're past that hurdle, here are five introductory pointers to successful pitching and presenting.

## 1. Being emotionally prepared: focused not fazed

This is about getting into the zone – the focus zone – when you’re preparing for your pitching or presenting task. And it’s about knowing how the instincts that have saved our skins for a thousand generations will help us perform that task superbly –the instincts of fight or flight. On the downside, they’re the instincts that give you sweaty palms and rapid, shallow breathing. On the upside, they’re the ones that get your adrenaline pumping and make you super-alert. Either way you can control them.

- Relax, don’t stiffen; visualize success not failure; display confidence not doubt; exhibit energy not inertia. Believe in your message.

It’s not as quirky as it might sound. It’s what every sportsman and woman does before the big event. What every successful public speaker does as he or she steps up to the rostrum. It’s called focus and it’s the way to make yourself *emotionally prepared*.

## 2. Getting connected: create interest; work the room

None of us likes to feel left out. All of us want to feel we matter. All of us want our interest to be stimulated.

People will pay real attention to what you’re saying if they’re *included* in the ‘discussion’, and are *interested* in it. So it’s important to know and concentrate on the ways to get the audience involved, the ways to create interest, the ways to reach out to your audience, the ways to create empathy:

- Bring the audience in right from the start by asking THEM questions (real or rhetorical).
- Make lots of eye contact with your audience. An audience’s attention tends to wander less if they know you’ll notice. One simple strategy is to notionally divide the audience-area into sections and then give regular but random ‘eye’ attention to each section.
- Help them understand how your message can relate to their own lives – the ways it can make a difference – for the better – to their everyday existence. Or, perhaps, the sorts of situations in which your message can be used – the ‘When’, ‘How’ and ‘Where’ that your message could have practical implications for them as individuals.
- Make them understand the impact of not buying the message you’re selling. For example, if you’re telling your audience about the importance of reliable widgets, explain the consequences of buying and using unreliable widgets – best of all, using illustrations you can share. It’s a fact that negative outcomes often create interest. People naturally want to avoid them.

## 3. Sounding right: commitment, dynamism, credibility

Your voice is a tremendous weapon in the presentational armoury. Think about it. It offers you so many dials to adjust. Volume, variety, speed, pitch, clarity, pauses.



They're all there to be used. And, used with the right balance, they tell the audience what's important, say where your emotional intention lies, create atmosphere and make your meaning clear.

Know your subject and resist the temptation to read. Reading a short burst of something technical requiring exact terminology is one thing. Reading a whole presentation is quite another. There is no better way to sound monotonous and put your audience into a coma. Also, use these techniques:

- Use your full tonal range – but use it appropriately. Introducing vocal variety for no good reason, or in the wrong places, just for the sake of it, absolutely is NOT what I mean. A flowing, musical way of speaking absolutely is. Listen to the cadences of Barack Obama's speaking voice and you'll understand what I'm talking about.
- Keywords. Emphasize the words that are vital to comprehension. Tony Blair is a good exponent of the emphasized word and phrase.
- Speak clearly and DON'T mumble. Speaking softly and talking slowly are cardinal sins.
- Use plain language. Language your audience will understand. Un-elaborate, specific, jargon-free.

## 4. Looking the part: from head to toe

We're talking here about body language and the word to remember is one you've possibly never heard before and probably never used: congruence.

Put at its simplest, it means harmony and, in the context we're talking about, it means harmony between your words and your body language – everything conveying the same message.

Open and interesting body language is a big subject but I'll confine what I have to say to a few core points about the face, hands and feet:

- Your message matters. It matters that it works. Don't be animated vocally but stiff physically. Let your face be expressive. Let your hands rest comfortably (and naturally) by your sides when you're not using them to emphasize a point – and let them be 'soft' when you are.
- By a face that's 'expressive' I don't mean one that belongs in a gurning competition. One that's mobile and which pleasantly conveys the way you feel about your subject will do just fine. And by hands that are 'soft' I don't mean you should adopt one of those feeble handshakes we all dislike. I mean the sort of soft hand movements you'll see used typically by accomplished communicators like Bill Clinton or, again, Barack Obama. Notice how their hand movements are deliberate yet smooth and fluid, not stabbing, jerky or 'out of sync'.
- Which leaves the feet. If you're interested in just one tip, it's this. Always point your feet in the direction of the people you're talking to. Sound's obvious but it's a discipline that amounts to much more than showing off your footwear. Think of it for a moment. You're sitting in a meeting. Point your feet towards the people

you're speaking to and, by definition, you're facing your audience and paying them the compliment of speaking directly to them and giving them your attention – a big first step to getting on their good side.

## 5. Practising = succeeding: practise, practise, practise

By now, just about everyone knows that Gary Player one-liner that goes 'The more I practise, the luckier I get'.

Where your presenting and pitching skills are concerned, you have to practise the techniques. There's no doubt that the techniques come very naturally to some – I've mentioned a few in the celebrity category who fit the description – but that isn't how it works for most of us. Most of us have to work at it.

Practising on your own in the comfort of your living room is just fine provided you understand what you're doing and don't simply spend your time reinforcing bad habits. That said, though, practising under the guidance of a professional pitching and presentation coach is vastly better. We live in the Communication Age; an age when the impression we create often matters every bit as much as what we're saying; when possessing a personal brand noted for presentational competence is what can sell you when you're measured against the competition.

So practise!

If we're honest with ourselves, we've all addressed meetings, made pitches and delivered presentations where we've thought afterwards we could have made a much better job of it. My point in this piece has been to show you that it doesn't have to be that way. The secret lies in the things I've talked about here which, put another way, amount to getting your mindset right, your voice right and your body language right. It's all you have to do. It's easy. It's common sense. And it works.

Nick Smallman is managing director of the London-based training company, Working Voices Ltd.

Established in 1998 and specialists in communication and presentation skills, Working Voices coaches on four continents for some of the world's best-known corporate names.

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# Business format franchising

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*Biggest in the region? Biggest in the country? Biggest in the world? Franchising can get you there, says Brian Duckett, MIOD, executive chairman of Howarth Franchising Group*

Business format franchising, which generates total sales in excess of £13 billion a year in the United Kingdom through 34,000 outlets employing 380,000 people, is ‘a business relationship where one party allows another to operate clones of a proven business system, and provides continual training and support in doing so, in return for initial and ongoing fees’.

Any business that can operate as a branch network, and which wants to grow, should at least consider franchising as one of the options. Only the business owners can create the vision, but however big they want the business to get – biggest in their region, biggest in their country, or biggest in the world – franchising may be able to get them there.

Established businesses can add new branches, or new businesses, once their system is proven; can grow much more quickly by using other people’s money and effort to open and run new outlets; existing branch networks can convert to franchising by turning their managers, or their competitors, into franchisees; just about any business which is successful in its home market can export its brand by franchising.

Let’s assume the business in question has been going for a few years. What are the positive signs which suggest it may make a good franchise? Five-star franchising requires the following attributes. They don’t have to be in place yet – that can be

remedied with professional help – but they will need to be in place before the franchise opportunity is launched.

## **Proven, successful format**

The business must have a track record of operating profitably – and operating profitably in the format in which it is intended to be franchised. If the business currently operates from retail stores of about 100 square metres in a secondary location, it cannot plan to franchise 500 m<sup>2</sup> stores in shopping malls.

The format will need to be documented in detail, in an operations manual, and as many as possible of the intellectual property constituents of the system must be protected by legal means, for example trade marks, store designs, bespoke software, unique colours, and the manual itself. Franchisors need to own the rights to these items as otherwise they cannot license the franchisees to use them, and cannot stop anyone copying them in order to compete with their franchisees.

## **Easily duplicated**

The easier it is to find sites for additional outlets, the easier it will be to develop a franchised network. Most small businesses are relatively easy to duplicate – all the franchisee has to find is an appropriate office, industrial unit, retail store, or whatever the business currently works from. In many cases this can even be the franchisee's home, which certainly keeps the overheads down and means they can start trading very quickly. Many franchisees start by working from home and then move into business premises once they get established.

Difficulties arise where the optimum premises are either hard to find or hard to acquire. Prime retail locations are notoriously difficult to come across, as they are in great demand and agents tend to have waiting lists of big-name prospects. They are equally difficult to acquire as landlords naturally prefer to go with an existing big business as a tenant rather than a start-up franchisee. Sometimes this can be solved by the franchisor taking the head lease and sub-letting to the franchisee, but the pros and cons of this need serious consideration.

The more outlets a business has when it starts to consider franchising the better, because it has already proved that the concept can be duplicated.

## **Easily learnt**

The easier it is for someone to learn how to operate, or manage, the business, the easier it will be to find appropriate franchisees – and the quicker they will get into action, the quicker they will start recouping their investment, and the quicker they will start paying franchise fees. Most small businesses, and just about all successful franchises, are fairly easily learnt – that's the beauty of them. Indeed a franchisor will continue to spend years making it easier because that's how both parties increase efficiency and profitability.

## Profitable for both parties

The franchising business model has to work for both parties – the franchisee has to be happy and making money; the franchisor has to be happy and making money.

The first stage of any franchising project is the creation of the franchise development plan, whereby detailed financial projections are prepared both for the franchisee and the franchisor. The franchisee's one is relatively easy, as it should be based on the past performance of existing branches, with some adjustments for the upfront and continuing fees that a franchisee will be paying; the franchisor's figures need some experienced input from franchising specialists, particularly relating to fee structures, support staff levels, franchise marketing and recruitment costs, and the likely speed of rollout of new outlets.

## Franchising culture

Franchised networks need to develop a culture of mutual trust and support, where everyone is working together towards a common goal. That is why understanding the franchisor–franchisee relationship is so important from an early stage.

The best way to explain the franchising culture is to consider what happens when an area manager of a large corporate organization visits one of his branches. The perceived wisdom is that if he tells the manager to jump, the manager will ask 'How high?' Compare that to a franchisor's field support executive visiting one of his franchised outlets. All he can do is ask the franchisee to jump, whereupon the franchisee will ask 'Why?'

The critical success factor for a franchising project, assuming it has been built on sound financial bases, is that both parties understand their roles and responsibilities and how they should interact. In essence, the franchisor is responsible for creating the system and the brand and ensuring they are operated to the required standard; the franchisee is responsible for operating the system on a day-to-day basis.

What this means in practice is that when a business becomes a franchised network, the essence of that business changes. Instead of being an operator of coffee shops, car hire or carpet-cleaning businesses, the business becomes about recruiting, training, monitoring and motivating independent business people who themselves want to operate coffee shops, car hire or carpet-cleaning businesses.

Many executives with responsibilities for developing and managing a franchised network learn the necessary skills by undertaking training programmes run by The British Franchise Association and The Franchise Training Centre, which can lead to a professional qualification, The Diploma in Franchise Management. Anyone considering franchising their business should at least attend the one-day seminar, An Introduction to Franchising for Potential Franchisors, details for which can be found at [www.thefranchisetrainingcentre.com](http://www.thefranchisetrainingcentre.com).

Business format franchising is a unique way of doing business, but it is an increasingly successful way of doing business in many sectors and in many countries around the world. There is no 'right way' to franchise a business and expert advice will be required to work out what may be the 'right way' for any organization. Experienced

practitioners will both structure the arrangement and prepare the necessary operational, legal and marketing documentation in line with the European Franchise Federation Code of Ethics, but the first port of call should be a consultant, not a lawyer – and that consultant should be an Affiliate member of The British Franchise Association.

Brian Duckett, MIOD, is executive chairman of Howarth Franchising Group and a board member of The British Franchise Association. He writes regularly for the UK franchising and business media and has presented at several seminars and workshops, including those arranged for The Institute of Directors, The Confederation of British Industry, The British Franchise Association, The International Franchise Association and British Franchise Exhibitions. Internationally, he writes regular features for franchising magazines in the United States, Europe, Australia and India, and has spoken at several franchise conferences on five continents. His book *How to Turn Your Business Into The Next Global Brand – Creating and Managing a Franchised Network* was published in the autumn of 2007. He can be contacted on 07836 215782 or at [brian@howarthfranchising.com](mailto:brian@howarthfranchising.com).

The Howarth Franchising Group comprises six specialist businesses serving the franchising community: The Franchise Development Centre; The Franchise Training Centre; The Franchise Support Centre; The Franchise Sales Centre; The Franchise Careers Centre; and The International Franchising Centre. The team has over 120 years of personal and practical experience of developing and managing franchised systems all over the world. Whether you are considering franchising or are already an established franchisor, our aim is to provide you with the best solutions, tailored to meet your requirements. As the first-choice advisers to prospective and practising franchisors, we have the breadth and depth of experience to help you at any stage of your franchise development – locally, nationally or internationally

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# Taking part in a conference

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*Sandy Maxwell-Forbes at the Edinburgh International Conference Centre comments on how to win an audience over*

The invitation that tests the nerves of even the most confident of executives is the one where they are asked to speak at a conference. However, it is a great opportunity to meet with industry peers and to promote yourself and your company's services and therefore should be embraced.

## It's all in the preparation

Obtain a guest list in advance. Determine why you are attending the event, other than presenting; is the purpose to network with a specific group of people? Define your goals and target audience and finally prepare an answer to 'what do you do' that's short, snappy and memorable when networking.

Allow plenty of time for travel and arrive on time for the event; it always seems a lot easier to introduce yourself to someone when you are one of the first arrivals and you will be less stressed

## Presenting

There are two basic reasons for giving presentations: to educate and to inspire. Either way, when you are making a presentation, you are selling your ideas, products and services, results and, most importantly, your competency and credibility.

Delivering an effective presentation to 20 or to 200 people is difficult. Because listeners have had better access to information since the internet became commonplace, audiences expect more content from speakers today.

Visit the room where you'll be speaking as early as possible so you can get comfortable in the environment. If you will be speaking from a stage, go early in the morning when no one is there and make friends with it. Walk around the area where you will be speaking so the first time there is not when you present; this allows you to deliver your presentation concentrating on your audience, not your environment.

Try not to sit down too much while you're waiting to speak. If you're scheduled to go on an hour into the programme, try to sit at the back of the room so that you can stand up occasionally. It is hard to jump up and be dynamic when you've been relaxed in a chair for an hour. (Comedian Robin Williams is well known for doing 'jumping jacks' to raise his energy level before going on stage.)

A lack of preparation would scare even a seasoned professional speaker. And so you will always feel more confident when you know what to do and say.

## Present or what not to present

Start by understanding that you'll spend a lot more time preparing than you will speaking. As a general rule, invest three hours of preparation for a half-hour speech. When you've become a highly experienced speaker, you may be able to cut preparation time considerably in some cases, but until then, don't skimp.

Research the audience's expectations and make sure that you understand the goal for your presentation. Before you prepare your presentation, consider the prevalent style of your audience. What's in it for them? What resonates with them? Focus on their need and adapt your presentation to focus on what your audience needs and how you can help them reach their goals.

Political correctness and diversity in public speaking is something to consider. Speakers are expected to use language that shows sensitivity to ethnicity, gender, sexuality, ability and age. As a speaker you are expected to be vigilant in your use of words in order to convey the meaning intended. Just as you would research your topic, today's meeting planners expect you to research your audience. You will never please everyone.

Some speakers say, 'I could never use humour in my presentation; I just don't feel confident with it.' Anyone can use humour and, appropriately used, it is valuable. It can relax an audience and make things feel more comfortable with you as the speaker; it can bring attention to the point you are making; and humour will help the audience better remember your point.

Quotations can be a great resource that can be drawn from to provide inspiration and guidance to an audience. The right one can highlight your entire presentation and make the difference between ordinary and memorable, and are generally accepted at face value if they were made by a famous personality – 'they said it so it must be true' – which is why celebrities are used on commercials. As Carol Warner in her book entitled *The Last Word* states: 'I never go to the podium alone, I always take a variety of people with me, it is often Eleanor Roosevelt and sometimes it is my

grandmother.’ The authority you quote should be recognized as someone who has the right to speak on the subject and be careful not to stretch the quote to make it fit the point you are trying to make. You don’t have to be a celebrity to have an original thought. Mystery writer Dorothy Sayers was quoted to say ‘I always have a quotation for everything – It saves original thinking.’

Once you plan your presentation, practise it. Then, before you deliver, rehearse with a clock to make sure you will finish within the allotted time. If you want extra help, hire a professional coach. You could also consider videoing yourself. Use the value and power of seeing yourself on tape. Practise a presentation at home and let the camera run, then watch it and think about what you might do differently to make your message even more powerful.

## How to behave on stage

- Begin with something to get the attention of the audience.
- Be energetic in delivery. Speak with variety in your voice. Slow down for a dramatic point and speed up to show excitement. Pause occasionally for effect.
- Don’t just stand behind the lectern, but move a step away to make a point. When you are encouraging your audience, take a step towards them.
- Show facial expression as you speak. Smile when talking about something pleasant and let your face show other emotions.
- Whatever your movements, they should have purpose.
- Look at the audience as you speak. Go to the lectern and pause, smile, look at the audience, and then speak. This will help you maintain good eye contact throughout your presentation as well as commanding immediate attention.
- Do not read your speech. Use note cards that have key words on them. The word or phrase should trigger the thought in your mind and then you can speak it. If you are including a quotation or complex statistics, reading from your note card actually lends credibility.
- Finally, leave the audience with something to think about. People remember best what you say last.
- Use a remote device. Remote presentation devices allow you to stand up to 100 feet away from the computer running your PowerPoint.

One never becomes a ‘perfect’ speaker; developing public speaking skills is a life-long experience.

## A few common mistakes to avoid

Last-minute fear is to be avoided. While waiting to present you may suddenly realize that your stomach is doing strange things and your mind is rapidly going blank. How do you handle this critical time period? Well, there is no single answer. You need to anticipate your speech mentally, physically, and logistically and take several deep breaths.

Truly memorable disasters don't just happen. They require a special blend of misunderstanding and misguided effort. Here are three ways to guarantee a disaster in your next presentation:

- Mistake 1: Believe in Magic. Don't show up hoping that a coherent, eloquent, useful presentation will magically appear once you start speaking, avoiding any type of preparation with a belief you can 'just wing it'.
- Mistake 2: Memorize your speech. Don't spend untold hours committing every precious word to memory so that you can recite it even if awakened in the middle of the night. You will sound like a machine. And if you stumble on a word, you can become speechless. This is painful and crushes your confidence.
- Mistake 3: Keep talking about yourself. Don't focus entirely on yourself, telling your audience about your background, your credentials and your history, making the presentation all about you, yourself and your life. People will listen politely but what they are really thinking is, 'So what?' Instead, talk about the audience. That is, talk about what they need and how they can achieve it.

## Finally, use the 3 Ps – personality, passion and purpose

Do you believe that you have to be serious – or that people won't take you seriously if you smile? Often serious is accompanied by dull (they seem to go together, just as smile is a best friend to energy). Be willing to be more expressive – smile, project your voice so that everyone can hear you and so that you sound confident. If you naturally use gestures as you speak, keep on using them. Most gestures are effective when presenting to a group.

And what of passion? If not passionate, are you, at the least, interested and engaged? If not, your audience won't be either. Your enthusiasm and interest need to reach out and touch your audience. If you don't believe in, or are not engaged by, what you present, they won't be either.

Purpose is a strong driving force for powerful presenting. It may not be your life's purpose to give a business presentation, but what within your content connects with your purpose, or that of your company? In order to be that presenter, make sure to tap into the power of the 3 Ps – personality, passion and purpose – don't leave home without them!

## Networking

After delivering your successful presentation, there is a great opportunity to use the conference to network. The art of networking, networking techniques, effective networking – it seems that everyone is searching for the answer to this well-kept secret. Effective networking comes with practice and as long as you have done some preparation and learnt to relax you will make the most of the opportunity.

Over 70 per cent of new business is gained through word of mouth and therefore networking should be an integral part of the marketing strategy of every company that is serious about doing business. As well as identifying new opportunities,

networking allows you to share ideas, experience and good practices, to meet inspirational role models, combat isolation by making new contacts, increase your confidence and self-esteem and build long-term relationships.

Wear your name badge on the left. It's where your eye goes when you shake hands. Use 'hosts' and organizers to introduce you to people – they are generally well connected – and secondly, it's in their interest to do so.

Move out of your comfort zone; for every person you meet and every hour you spend with them, they will be an ambassador for you and make another 10 recommendations on your behalf. If people are interested in what you do, generally they will ask for a card – don't offer your card right at the outset. Take notes about a person on the back of their business card and always try to follow up with people you have met, adding useful contacts to your database.

## Top tips

- Mix not magnet! Try not to attach yourself to the first person you get speaking to. Also, the person you are talking to, while they might be enjoying your company, probably wants to be able to chat to one or two other people as well.
- Listen to what other people have to say first (everyone is interested if you're interested in them) and listen for link words that connect with who you are and what you do.
- Keep conversation to neutral topics, avoid monopolizing the conversation. Ask questions that require more than yes/no answers.
- You will create a better first impression if you deliberately copy the pace and volume of the person you are speaking with to achieve credibility and authority.

Sandy Maxwell-Forbes is head of marketing at the Edinburgh International Conference Centre and during two decades in the marketing industry has developed a combination of management expertise and marketing vision that has been applied to the transformation of several blue-chip organizations operating nationally and internationally.

Prior to the EICC, she was director of marketing at Halliburton, one of the world's largest providers of products and services to the oil and gas industry employing more than 100,000 people in over 120 countries with revenues of \$21 billion in 2005, where she was responsible for strategic planning and tactical rollout for 16 countries across Europe, Africa, India, Russia and the Middle East.

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# Planning mailshots

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*Andrew Miller, new business marketing manager at Royal Mail, on how to make a return on mailshots*

## Working out your own direct mail objectives

What should your direct mail objectives be? In short, you want more customers and more sales. But how many more? What can you reasonably expect to achieve? Are you going for long-term goals, such as building the reputation of your business, or do you want something more concrete, such as turning customers into repeat customers?

Working out exactly what your objectives are is an important part of the planning process. If you don't know what you want to achieve, it's impossible to assess how well you've done or how you can improve in the future.

Here are some examples of typical mailshot objectives:

- attracting 100 new enquiries in a month;
- making a gross profit of £5,000 per mailing;
- increasing repeat business by 40 per cent over the course of a year;
- securing 500 new customers in six months.

If, when you analyse your results, you find your mailshots underperform, either you set your sights too high or some element of your campaign is just not working. If you think your mailshot might outperform your objectives, you need to plan for increased response.

## More ideas for your direct mail objectives

What do you wish to achieve? Here's a list of some more suggestions for deciding on the objective of your direct mail campaign:

- encouraging customers to visit your business or your website;
- introducing your business to new customers;
- encouraging referrals from existing customers;
- introducing new products and services;
- reactivating lapsed customers;
- saying thank you;
- following up a recent purchase;
- asking for feedback;
- increasing sales to existing customers;
- offering customers something new.

## Considering the cost of mailshots

You may well have thought of using direct mail in the past but imagined it would be too expensive, so now's the time to take a realistic look at what exactly an effective mailing costs you.

The cost of a mailshot depends on a range of factors, including:

- how many people you want to reach;
- how much material you want to send them;
- what sort of material you want to send.

Like any other business decision, direct mail is all about cost and return. It's only worth undertaking if the income generated is greater than it costs you to design, produce and deliver.

The difficulty comes, of course, when the return on your investment is harder to quantify. If, for instance, your objective is to build customer loyalty, working out exactly what this is 'worth' and how much money this loyalty represents is pretty tricky.

## Doing your sums

If you're a first-timer you might want to reign in your enthusiasm slightly and start with a mailshot that's small but perfectly formed.

Let's say you go for 1,000 customers, you decide to do the writing and design yourself, use your own mailing list (rather than buying one), and print the leaflets on your own printer. Look at the example in Table 3.6.1 to see the costs.

Of course, the costs shown in Table 3.6.1 are not definitive and fixed costs such as labour, overheads, premises, equipment and some materials are not included.

Another example is shown in Table 3.6.2. This time the mailing consists of a personalized letter, a specially prepared leaflet and an overprinted envelope. This time you're using some professional help to produce the leaflet and renting a list of names to send your mailshot to. You're aiming for a slightly larger audience so are considering a more ambitious print run – 5,000 – as well.



**Table 3.6.1** Cost of creating a mailshot yourself

Item	1,000 mailings
List rental	nil
Copy and design fees	nil
Artwork and print	nil
Paper	£18
Envelopes	£20
Postage	£360*
Total cost	£398
Cost per mailshot	£398 / 1,000 = 39.8p

\*Based on a first-class letter, 36p/item up to 100g.

**Table 3.6.2** Cost of creating a mailshot with professional services

Item	1,000 mailings	5,000 mailings
List rental	£100	£500
Letter print	£95	£300
Leaflet print	£95	£300
Artwork	£120	£120
Envelopes	£50	£175
Postage	£360*	£1,500**
Enclosing	£100	£300
Total cost	£920	£3,195
Cost per mailshot	92p	64p

\*Based on a first-class letter, 36p/item up to 100g.

\*\*Based on a first-class letter, 30p/item up to 100g, with mailshot 1400 discount.

No matter what your final print run, some costs are at a fixed rate. For example, in Table 3.6.2, the cost of artwork remains the same for 5,000 mailings as it is for 1,000 mailings, as it's a one-off fee. But for items such as envelopes, printing, and list rental, the prices rise when the number of mailings increases.

Once you've done the sums, you'll be able to work out if a direct mail campaign is worthwhile for your objective.

## Calculating break-even

Unless you're happy to send out a mailshot with no eye on the profit or loss you'll make, calculating that your campaign covers its own cost is pretty important.

Break-even analysis works out exactly what you need to make to cover costs, in terms of response rate, profit margin, mailing size, number of sales and average order value. It's a really useful way to organize your mailshot budget.

Table 3.6.3 shows an example of a break-even analysis for a mailshot of 1,000 mailings.

Working out your break-even budget involves making some assumptions, such as conversion rates (the percentage of people who buy, compared to the percentage of

**Table 3.6.3** Setting a break-even budget for an office supplier

Size of mailshot	1,000 mailings
4% response rate	40 replies
25% conversion rate	10 orders
Average order value	£150
Total order value	£1,500
30% profit margin	£450
Resulting break-even budget (total)	£450
Unit cost per mailing	45p

people who respond). So, for example, if 80 people respond and 12 actually buy, your conversion rate is 15 per cent.

In Table 3.6.3, we assumed that out of the 1,000 people mailed, 40 responded, a quarter of whom bought the product. If each sale is worth £150 at a profit margin of £45 per sale, you'll make £450. If the costs for the mailing exceed £450, you'll fail to break even. If they come in at under £450 or you get more than 10 orders, congratulations, you're in profit!

Tables 3.6.4 and 3.6.5 give another couple of examples using a slightly different working method, starting off by deciding how much you can afford to spend and then working backwards to calculate: what profit margin you need to cover costs; and what response rate you need to cover costs.

This form of break-even analysis is really useful if you have a fixed budget in mind.

**Table 3.6.4** Checking your profit margin covers your costs

Mailshot budget	£450
Size of mailshot	1,000
4% response rate	40 replies
25% conversion rate	10 orders
Average order value of £150	£1500 in sales
Profit needed to cover costs	£450
Break-even profit margin	30%

**Table 3.6.5** Setting a break-even response rate

Mailshot budget	£450
Size of mailshot	1,000 mailings
Profit needed to cover costs	£450
Sales needed at 30% profit	£1500
Average order value of £150	10 orders
25% conversion rate	40 replies
Break-even response rate	4%

So, in the example shown in Table 3.6.4, your profit margin needs to be 30 per cent or higher to cover the costs of your mailshot. Table 3.6.5 works this the other way to get to a break-even response.

You control how much you spend on your mailshots, because you control how many people you send your message to. Even if your budget is tight, mailshots are worth sending because they are a great use of resources. You can create your own simple mailshot for little more than the price of a piece of paper, an envelope and a stamp, so if you wanted to send a message to 100 of your best customers, you could do it at relatively little cost.

Make sure you're geared up for the response to your mailshot by speaking to your suppliers (to ensure that you can get enough stock) and all your staff. Not fulfilling your customer's expectations or even partially fulfilling them can have dire consequences for future sales and your reputation.

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# An effective sales letter

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*Andrew Miller at Royal Mail discusses how best to write a letter that will appeal to your audience*

You've gathered together information on what you think makes for a good mailshot, sorted out your goals and target audience and organized your direct mail database to make sure you reach the right people. Now what? Well, making sure that your direct mail campaign is written to appeal to your audience is a good step forward!

## Writing your letter creatively

If your mailshot wrote itself, this step would be just that little bit easier... but as it won't write itself, this article contains our advice on getting things just right (or write).

### *How do I write an effective sales letter?*

With a little practice you should be able to turn out the sales letter you include in your mailshot in about 30 minutes. Simply ask yourself the following questions and arrange the answers in letter form:

- Do you have the name of your customer? If so, address the letter to them. If you know them well, use their first name. If not, use their title and surname. If you don't have their name, use a default greeting – 'Dear reader' or 'Dear gardener'.
- What's your main reason for writing?
- What are you offering your customer?
- Why is it of benefit to them?

- Are there any other benefits for the customer?
- Can you offer your customer a guarantee that this is the right product for them?
- Can you encourage your customer to respond more quickly?
- Is there any information they will need to respond?
- Have you signed the letter? Use your full name.
- Ask yourself again: is there any way to encourage your customer to respond or can you restate your main benefit?

### ***How do I make my letter easy to read and understand?***

Follow the advice in this list to help keep your letter simple and understandable:

- Use short sentences. Sixteen words is a good general rule; don't exceed 32 words.
- Use short paragraphs. Limit each paragraph to one thought or idea.
- Concentrate on style. A good way to write is to write as you would speak.
- Minimize punctuation. Over-punctuation can be... confusing!
- Be warm and friendly. Let your personality shine through but don't be over-familiar.
- Count the 'you' word. 'You' is a very important word; it should appear at least two or three times more often than 'I', 'we', or 'our'.
- Use everyday words and phrases. Big words can sound grandiloquent, bombastic, and orotund (that's pompous to you or me; see what we mean?).
- Use superlatives sparingly. Words like 'fabulous', 'marvellous', and 'amazing' don't really convince anyone.

Get straight to the point. Don't waste time at the start of the letter introducing yourself or your business – you can do that later. Tell the customer straight away what's in it for them.

### ***Six things to do once you've finished writing***

As any good editor will tell you, before sending your masterpiece out, be sure to:

- check spelling and grammar;
- ask someone to read your letter aloud to see how it flows;
- check the letter begins with your main point;
- look out for any distractions (such as information relevant to other products but not the one you're mailing about);
- get other people's input;
- give your letter the 'overnight test' and read it again the following day. If it still reads well, send it.

### ***How do I overcome writer's block?***

Getting started is often the hardest part of writing. We offer the following ideas to get going, or to keep up the momentum if you're starting to flag:

- Hold an imaginary conversation with your customer and write down everything you'd say face-to-face.
- Hold an imaginary conversation as suggested in the previous bullet, but try recording it on a tape recorder.
- Allow yourself plenty of time to write your letter.
- Work out when your most productive time is and write during that time.
- Write down all your ideas – whether you think they're good, bad, or indifferent – and select the best (sometimes your opinions change when you've got them down in writing).
- Write more than you need to, then edit it down.

### ***Twenty-two ways to begin a letter***

The first three or four words are potentially the most important of your mailshot... and are also the most difficult to write. Here are some suggested openings:

- 'Ask yourself – where would...'
- 'Did you ever see...'
- 'Do you know...'
- 'Have you ever felt...'
- 'How would you like...'
- 'How many times have you...'
- 'Here's the free...'
- 'I believe you are...'
- 'I trust...'
- 'I want to thank you...'
- 'If I came into your home/office...'
- 'If my letter has...'
- 'If you could...'
- 'I'm delighted to...'
- 'Let me ask you – what if...'
- 'Most people never expect...'
- 'Since we last...'
- 'The fact is, if you're...'
- 'This is your chance to...'
- 'Who do you call...'
- 'Would you like to...'
- 'Wouldn't it be...'

### ***How do I judge if my letter will be a success?***

Keeping a few ideas in your mind about what your readers will think when they read your mailshot helps to make sure that your letter hits its objective.

Here's a simple checklist of common thoughts to help you assess your letter:

- Who are you and why are you writing to me?
- Can you prove what you're writing to me about?
- Where's the evidence?
- What's in it for me?
- What's so interesting about this?
- Who is this product or service for?
- Why are you writing to me?
- Why should I do it?
- What do you want from me?

## Choosing what to put on the envelope

Your envelope is important because it is the first impression the recipient gets of your company and it can make your letter stand out from the rest of the mail. Ask yourself: will it encourage people to open it?

Consider who you're writing to. Make sure that however you choose to present your envelope it supports your objective. For example:

- If you have a very strong offer or unique product, reiterate this on your envelope. Ideally, do this in a different way to the letter inside. Envelope messages that promise benefits are the best.
- If you have important news, use an announcement style message on your envelope. For example:
  - 'There's £50,000 on offer to one lucky reader'
  - 'Important news for arthritis sufferers'
- If you want to make a 'surprising revelation', include a message on the envelope that stimulates people's curiosity. Such tactics work well, for example:
  - 'What would you do with £50,000?'
  - 'Only open this envelope if you're prepared to be shocked!'

Follow up curiosity headlines quickly, before interest drops off. And remember, what stimulates one person's curiosity could leave another customer cold, so follow up a curiosity headline with a benefit.

## Writing brochures and leaflets

In addition to your mailshot letter, you might be thinking of writing a leaflet, brochure or catalogue to accompany my letter.

This doesn't just apply to leaflets, even though that's the word we've used in this section. So wherever you see the word leaflet, think of it as shorthand for leaflets, brochures, catalogues and pretty much any other type of material you're considering including in your mailshot along with your main letter.

### *How do I plan my leaflet effectively?*

Follow these steps to create a great leaflet for your mailshot:

1. Ask yourself why you are including a leaflet. Do you want to:
  - reiterate all the key benefits of your product?
  - explain your product in more detail?
  - provide details of an entire range?
  - highlight a limited offer promotion?
  - present customer testimonials?
  - provide background information on your company to help build its reputation?

Remember that some mailshots work just as well with only a letter.

2. Write a headline reflecting your objective. Here are some examples:
  - ‘All you need to know about XXX (your product)’
  - ‘A comprehensive guide to our complete range of products’
  - ‘Your chance to win a fabulous holiday for two in Jamaica’
3. Gather all the source materials you need to write your leaflet. These might include:
  - technical specifications;
  - information on the product’s history;
  - product reviews from magazines;
  - findings from customer research;
  - competitor mailings for similar products.
4. Sift through the information you’ve gathered and highlight any relevant points. Use a highlighter pen and Post-It notes to indicate the important pieces of information you’ve found.
5. Write down, in bullet points, all the information you want to include. When you’ve done so, arrange them into manageable chunks of text.
6. You’re ready to start writing your leaflet!

### ***How do I keep readers interested in my leaflet?***

Check out these simple techniques to keep people reading your leaflet:

- Don’t forget to caption pictures.
- Keep repetition to a minimum.
- Remember to include a call to action.
- Use active words.
- Use bullet points, numbered lists and comparison tables.
- Use link words and phrases – for example, start paragraphs with ‘And’, ‘But’, or ‘What’s more...’.
- Use lots of headings and subheads to break up text.
- Vary the pace of the text.
- Write in the present tense wherever possible.



## Writing an effective response device

A response device is something you supply to your prospect that, ideally, helps turn them into a customer. It's a method for them to reply, such as a paper or online order form, and the easier your response device is for them to use, the more chance they'll get it back to you.

Decide what information you want to include in your response device. You might want to collect the following:

- Personal details. Including: title (Mr, Mrs, and so on); gender; first name/s; surname; company name and position; postal address; phone number/s; email address/es; and date of birth. If you already have some or all of these details you can use them to personalize your response device, making it even easier for your customer to fill in.
- Order and payment information if you want your customer to buy direct from the mailing. You'll need to know: item; colour; quantity; and cost per item. You'll also need to include payment details. Options include: cash; cheque or postal order (specify who it should be made payable to); credit/debit card details; direct debit details. Be aware that the Direct Debit Guarantee safeguards direct debit details. Ask your bank for more details.

You might also want to use this opportunity to get some additional information, including: 'How often do you...?'; 'When did you last...?'; and, 'When is... due to expire?'

You must include an opt-out clause on your response device allowing respondents to indicate that they do not want to receive any further mailings from you.

Get a friend to fill out the response device and alert you to any difficulties they encounter.

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# Flexibility for employers

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*Helen Wyatt of Goodman Derrick LLP discusses how employers can retain scope to adapt their workforce as they grow and as conditions change*

Employers often complain that their hands are tied when it comes to employment law. The idea of asking employees to be adaptable in relation to their jobs would seem unfeasible in the context of the vast swathes of legislation which bombard HR managers.

In contrast, employees are granted the specific benefit of rules that permit flexible working practices, but these rules are rooted in the needs of the family and are quite a different story. The focus of this chapter is to consider a different type of flexibility: one that benefits the employer.

Given that your growing business will not always be growing at a constant rate, your business needs to be able to adapt to market conditions. In times of economic uncertainty, the options for doing so (and the restrictions which accompany them) should be examined.

When considering flexibility from the employer's perspective, there are a number of different options that can arise. Some can be implied into the employment relationship with a degree of caution and others need to be carefully drafted and inserted in an employment contract.

## **Implied terms: the duty to be adaptable**

Even if you currently provide only a very basic statement of employment particulars, the law will imply a number of terms into the relationship between you and your employees. A couple of such implied terms with which you may already be familiar

are the mutual duty of trust and confidence and the employee's duty to obey reasonable instructions. Linked with this latter obligation is the duty to be adaptable. If you introduce a new system of work, it is not open to the employee to insist on doing it the old way. Even if the content of the job is significantly altered, if the job remains recognizably the same but is done in a different way, the employee cannot object or demand higher rates of pay. You would, of course, be well served if you also discussed the changes in advance and provided additional training to make the transition to new working methods go smoothly.

## Implied mobility clauses

On very limited occasions, the courts have held that employees have an implied duty of mobility which allows the employer to change his/her place of work. Generally, this has only been done in cases where the change still produces a reasonable daily commute for the employee. It is also the case that the more senior an employee is, the greater the degree of mobility that could be expected.

An implied mobility clause is a rare creature and it is therefore much better to address the matter expressly by a contractual clause.

## Express terms

Certainty and clarity are always preferable in an employment relationship. Even though implied terms can create some flexibility, the employee will know nothing about them until the employer tries to invoke them. This does little for employee relations. It is much better to have contract of employment that sets out the flexibility that the employer might want.

Wide-ranging clauses that purport to give the employer permission to make substantial changes are looked upon harshly by Employment Tribunals and are unlikely to be enforced. It is only where the proposed changes fall completely within the scope of the clause that they stand a chance of being upheld.

In addition, an express clause must be exercised by the employer in such a way that it does not breach the implied term of trust and confidence which underscores the employment relationship. In the leading case on this point, a bank employee had a mobility clause in his contract which allowed the employer to relocate him to other branches. He was asked, with very little advance warning, to move from his Leeds office to a branch in Birmingham. The employer also refused to exercise its discretion to pay him relocation expenses. The Employment Appeal Tribunal confirmed that the employer's conduct amounted to a breach of three implied terms, namely that:

1. Reasonable notice of the relocation should have been given, regardless of the existence of the mobility clause.
2. The employer should not have exercised its discretion not to pay relocation expenses in such a way that it made it impossible for the employee to perform his obligations under the contract.

3. The employer should not have acted in a manner which damaged the relationship of trust and confidence between the employer and employee.

The lessons are clear. Where you need to relocate staff and are relying on a mobility clause, you need to give the affected employees plenty of advance warning and ideally explain to them the ramifications of the relocation. It would also be wise to consider whether any practical or financial assistance should be provided to the employees in order to help them make the change.

Where you are closing all or part of your current place of work but relocating employees to new premises, this will be a redundancy situation as defined in the legislation. (There are detailed rules and requirements which apply if you are making 20 or more employees redundant within a 90-day period and given that these rules are beyond the scope of this chapter, it is important to get legal advice.) If you have an appropriate mobility clause in your contracts of employment, you can instead invoke that clause and tell the employees that you are not following a redundancy procedure but are instead moving them to a new location. You must, however, take the same approach with all affected employees and not pick and choose whether you make some redundant and use the mobility clause to relocate others.

A carefully drafted express clause can also be used to alter shift patterns or working hours. However, implementing changes that have the effect of reducing the amount that employees earn will be difficult. As a general rule, the more detrimental the clause to the employees' interests, the more precise the wording of the clause will have to be before it will be enforced.

On two occasions in the past year, the Employment Appeal Tribunal has considered cases where the employers went too far in the use of flexibility clauses. In the first, the employers were relying on a contractual term which stated that it was a condition of employment that employees could be required, with some advance notice, to change shifts or positions in order to meet the changing needs of production. The employers used this clause to increase working hours by almost 80 per cent. The affected employees claimed constructive dismissal and the Tribunal upheld the claims. The actual wording of the contractual clause would not be stretched to allow the employer to increase the amount of working hours.

In the second case, the express contractual clause permitted the employer to alter shift patterns and change to a continental pattern of 12-hour shifts. When the employer needed to reorganize working hours, employees were told that their hourly rates of pay would stay the same but that their working week would be reduced by three hours. Again it was held that this was a breach of the contract of employment. The express clause only permitted a rearrangement of the existing hours and did not allow the employer to reduce the number of hours in the basic working week.

In each case, if there had been an express clause with precisely drafted wording that allowed the employer to increase or decrease the number of hours of work, the position could have been different – a clause which simply gives the right to 'change' working hours will be interpreted narrowly and in the employee's favour. If you envisage that you might need to make changes in start/finish times or even in the actual days of the working week, you should ensure that the ability to make such alterations is clearly stated in the contract in order to be able to rely on it.

## A word of caution

This chapter has considered a few general principles but many employment law cases turn on their precise facts. Therefore, and as you might expect a lawyer to say, before making any key decisions based on information in this chapter, it is advisable to seek legal guidance on your specific circumstances.

Helen Wyatt is a partner and head of the Employment Department at Goodman Derrick LLP in London. Goodman Derrick LLP is a dynamic law firm with a broadly based commercial practice, representing both UK and international clients. The firm has developed an acknowledged expertise in the areas of media law, corporate & commercial law, litigation, property, employment, franchising and private client law. Helen can be contacted by telephone: 0207 421 7946 or e-mail: [hwyatt@gdlaw.co.uk](mailto:hwyatt@gdlaw.co.uk). Our website is: [www.gdlaw.co.uk](http://www.gdlaw.co.uk). Please do read the other chapter in this book on sales and acquisitions written by Edward Sanguinetti.

# The human approach

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*You will never grow without employing people, so learn how to manage, motivate and measure them, says Nichola Annable at Opal*

You prepared yourself for the hard work and long hours, but probably never prepared yourself for dealing with employing people. Running a business profitably is not easy. Owners do not always develop their own skills required to manage their business effectively. They may have a fantastic invention, a good set of products, service and focus, but these will not guarantee success. Your own personal motivation will be destroyed if you are not delegating, planning and allocating resources. If you are limited on skills – learn them, and if not delegate them, by buying in the resources. You can always take advice from a professional adviser too, at a cost.

## The three Ms

Taking the company from a single owner to a larger company needs the most challenging assets of all... people. People need to be managed, motivated and measured, the three Ms – to produce the best results.

Deciding on how many people to employ is governed by the nature of the work and activities involved. Normally a build-up of work causing a bottleneck will require you to take action and get additional staff; they may be temporary, part time or long term depending on the circumstances causing the build-up. Every business experiences some seasonality. Check there is not a better system you could use, new technology, investment in equipment and retraining.



Work out what you can afford and what you can offer. The human is your best asset and often your greatest cost, sometimes hidden. Identify what you need in a person by writing a job description. How will that job fit into your organization? Who will they report to, what duties will they perform and what responsibilities will they have? What type of person would best suit this role? What qualifications, experience, personal qualities and personality will they have? What really matters is the ability of the candidate to do the job. Qualifications are important and can show learning ability, perseverance and aptitude, but experience shows environments that have actually been lived through. Failures are a good learning tool and recognizing potential failure is invaluable! Make sure you do not have an individual with high attainments in a repetitive role as they will lose interest quickly. Remember that poor recruitment and retention of staff gives your competitor the advantage.

Good employment is a journey of learning and growing; the people you employ should always be given the opportunity to acquire and apply new skills. So employ someone with the essential skills you need now and give them room to grow, or be comfortable that they want to teach others with their knowledge and have personal growth through imparting knowledge. Mentoring within a company not only increases the knowledge, but creates a caring environment that will pay you back tenfold compared to its cost.

Once you have decided on the post, you can advertise it. Once you have a supply of candidates, follow a structured approach to interviewing them, to ensure that each one is treated fairly and you can compare like with like. Explain the positives and the negatives of the role, test the candidate's ability where possible, be practical and ensure the candidate can get to you easily. Can you accommodate their personal responsibilities, understand them as a person, can you see yourself working with them and them with you? Recruitment is a form of marriage – it is as much about the candidate choosing you, as you choosing them. Honesty is important to build trust. Go by your gut: if you feel comfortable with your findings then follow your own judgement and offer the job; if you do not feel comfortable, let them go with no regrets. Identify a suitable second candidate where possible, in case your first choice declines. If that is not possible, start again; never accept second best or go against your judgement, just to fill a role. Always offer a job in writing, including a job description and stating that the offers are subject to references from the last two employers. This will ensure that you have the full picture on the individual.

## Growing the tree

So you have your people – now what happens? Organization, Organization, Organization. You are a very lucky company indeed to have people working together without organization. Good organizations formalize activities to ensure they are carried out effectively, in the timescales given, with clear objectives and responsibilities given, and with no tasks omitted. Reorganize if necessary to finely tune the machine to work. Build in resilience. You must understand that people will take 'x' holiday, will have 'x' days sick and will not walk through a year without some personal issues, so allow 'x' days for that too. Factor all of this in when mapping your require-

ments. After all that, measure it; if you cannot measure it – you can't improve it. This is a subject unto its own, however, and speed of response, excellence of service, complaints and mistakes go a long way to assessing performance.

I referred earlier to the three Ms. We have touched on Managed and Measured but what about the secret ingredient, Motivation? The average human usually wants rewards like security, financial gain and job satisfaction, but they also need motivation. You may be lucky enough to employ self-motivated people throughout; however, in the event that you do not, here are some tips. Pay alone is not enough, although for some it is. Money is necessary but easily used, short lived and not memorable, unless it is directly linked to performance. For everyone else, basic human needs are required, after that basic human common sense. It is different strokes for different folks. However, your best childhood foundations will be based on praise, which costs only time and thought. Although those people have grown up they still require those basic needs. Put yourself in their shoes, ask yourself some of these questions – the list is not exhaustive, and eliminating a problem does not always result in higher motivation. Check the hygiene factors – is it pleasant working here? Improvements can have a lasting impact. Never assume you have the answers – consult your humans!

- Do I know what I am doing and what is expected of me?
- Does anyone care about and understand me?
- Am I noticed?
- Am I treated fairly?
- Can I develop?
- Do my opinions count?
- Can I influence the way I work and make decisions for myself?
- Does my manager explain things?
- Am I proud to work for the organization?
- Do I have fun?

Just remember, you are at the end of the day employing human beings. In case you are unsure of what they are... Human – adj. of mankind; of people; not impersonal or insensitive. N. a human being. ... just like you.

Nichola Annable is an HR professional employed by Opal and a Chartered Fellow of the CIPD. She is a multidisciplinary senior manager with experience in the internet, telecommunication, distribution and pharmaceutical industries. Her career has covered both HR and Finance, developing and managing people through change during mergers and acquisition.

Opal focuses on business communications for the mid and corporate market sectors. It has been operating in the managed networking market since the early 1990s and focuses on designing solutions that recognize the business criticality of a customer's data. As well as design, Opal is recognized for customer

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Further details: Opal Business Solutions Limited, 6 Cliveden Office Village, Lancaster Road, High Wycombe HP12 3YZ

Tel: 01494 513333

E-mail: [nikki.annable@opal-solutions.com](mailto:nikki.annable@opal-solutions.com)

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# Unlocking the talent of Generation Y

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*Jo Causon, director, marketing and corporate affairs at the Chartered Management Institute, examines the demands of today's younger managers, debunks the myths surrounding them and gives clues about how organizations can attract and retain Generation Y*

Every generation is brought up with a set of social, family and work values. Some people refer to these as 'standards' and most people are familiar with the traditional complaint that 'standards have fallen'. Perhaps, though, it is far more accurate to argue that the standards have changed.

A report, published by the Chartered Management Institute and Ordnance Survey, explores the views, needs, values and aspirations of today's younger manager; the so-called Generation Y whose attention employers need to catch to deliver innovation and long-term growth.

Yet, catching the attention of Generation Y is no easy task, with multiple communications competing for their interest. The current crop of new entrants to the working environment also comes with a certain degree of stigma attached. Indeed, managers under the age of 35 have been discussed at length in opinion-leader columns, recruitment fairs and among employer groups. Almost as one, the conclusions have been the same; namely that Generation Y is self-absorbed, disloyal and impatient.

It makes sense to believe that, if these descriptions are accurate, worries over recruitment and retention will continue to keep employers awake at night. But just because we have always been told – or assumed – something does not necessarily

mean that it is true. And that is where our research begins to help employers. Surprisingly, for employers, it shatters many long-held beliefs about Generation Y.

To begin with, the study explores many of the pressures that today's younger manager faces. These must be appreciated if their motivations, drivers and values are to be understood. For example, only 24 per cent of Generation Y managers have children – a factor that reflects the trend to put careers first.

Jobs also appear to be moving towards more transitory employment contracts. Six years ago, for example, only 6 per cent of young managers were on temporary or fixed-term contracts. It's a figure that has risen to 15 per cent today. It seems, then, that society is changing as businesses recognize the need to become more flexible, responding to the challenges of a new working environment.

And, as most employers will testify, there is also a growing trend towards the 'micro career' – where experience is built up rapidly, creating a level of impatience for the next experience, challenge or promotion. Could this go some way towards explaining Generation Y's willingness to switch roles regularly, too?

## Shattering myths – 'I want it now'

Against what seems to be a negative background, the study sought the views both of young managers in the workplace and of significant proportions of those who will be entering it in the next three years.

Take, for example, the idea that today's younger managers form the 'I want it, and I want it now' generation. On the contrary, the study indicates that many of them are actually focused on long-term skills development to boost their career options. They are driven by the opportunity to build new skills, competencies and cross-functional experience.

Their emphasis on progression must be recognized by organizations if employers want to be successful with Generation Y. But progression does not have to be linear. Young managers are looking to stretch themselves and apply innovative ways of thinking. It means that organizations should consider options such as project work to attract new staff, keep them motivated and help them develop the transferable skills they seek.

These findings also reflect a study called 'Management Futures'. Looking at the world of work in 2018, it argues that organizations will alter in character, reflecting changes in society. The suggestion is that, in a multi-generational workforce, 'work needs' of employees will change as they operate across wider geographical areas. Sixty-five per cent expect that working from home will be commonplace to reduce the carbon footprint. Seventy-three per cent suggest that work-life balance will be the key to job choice. It means that a greater degree of emotional intelligence will be required by employers so that they can understand how people work and their likely reaction to change. They will also need to shift from today's input-driven approach to a focus on output, achievement and a better integration between work and personal lives.

Exploding the myth also chimes well with earlier research indicating the value that individuals place on qualifications. Most, it appears, focus on the idea of qualifications as a 'career passport'. The majority (85 per cent) of younger managers view the effort of studying as worth it because, they argue, qualifications will 'improve their

chances of employment' in the future, and 69 per cent also suggest that management qualification 'improves promotion prospects'.

In an era when skills shortages are so acute, this should be welcome news for employers. So it is a worry that many employers readily admit they are failing to support the desire for training and development. The 2008 National Management Salary Survey, for example, highlights the fact that 48 per cent of employers know they are losing staff owing to a failure to offer the chance to develop key skills.

## Shattering myths – 'What's in it for me?'

Evidence suggesting that Generation Y is self-indulgent is nothing more than anecdotal. Hard facts, on the other hand, show that today's younger managers are driven by ethics and a sense of purpose.

Asked if they 'would quit their job tomorrow' if they won the lottery, just 13 per cent said 'yes'. An overwhelming majority (90 per cent) went further to disprove the myth by saying they only 'want to work for an organization that does something I believe in'. Over half also stated that they 'would only work for organizations with strong values'.

The point is that employers have to recognize that new entrants to the job market view job choice as a lifestyle choice. They won't work for your organization just because the balance sheet is a healthy shade of black. They don't want their CV to be littered with brands that don't share the same environmental or social concerns. In return for their commitment, talented young managers are demanding specific qualities and they will stay so long as they feel those are being met. It means that employers need to live up to the values they describe and the promises made during the recruitment process.

Taken further, the approach to interviewing where prospective employers seek a 'personality fit' between the interviewee and the incumbent team members is no longer the 'full picture'. Now, it is, just as often, the other way around. So, if an organization wants to succeed in the long term, recruit and retain the best talent, employers must ensure their brand values are easily identifiable and lived within the organization.

## Shattering myths – 'Shy of commitment?'

It is also often said that Generation Y is shy of commitment, but the report from the Chartered Management Institute and Ordnance Survey shows otherwise. Sixty-three per cent of respondents have been in their current job for three years or more and only 4 per cent strongly agreed with the statement that 'there's no point being excessively loyal to an organization'. Indeed, if there was any truth to this belief, why are almost two-fifths prepared to work in the evenings if necessary and a further one in three working at weekends?

The point is that there are plenty of young managers prepared to work extremely hard, but only if they feel valued. The majority will put in extra effort if they believe recognition will follow – though, sadly, research suggests that this only seems to happen in a minority of organizations. This raises questions about what we believe

recognition is. Interestingly, it is not about throwing more money at top talent to keep them – just 21 per cent are motivated by what they earn. Rather, focus on the opportunities that can be given to help people develop. Think about how you, as an employer, are able to offer a variety of challenges, especially as most Generation Y respondents claim to ‘thrive on handling lots of tasks at once’.

Of course, you shouldn’t see this as an excuse to over-burden younger managers with work. Whereas in the recent past most employees discussed how they balanced their work and personal lives, the debate has moved on towards one of work–life integration. In other words, Generation Y sees what they do at work as an extension of who they are as an individual. Most (79 per cent) say that if they are ‘allowed to be themselves at work’ they will remain committed. If, however, work begins to dominate, tolerance for blurred boundaries will diminish and the possibility of creating a dissatisfied workforce increases.

## Moving forward

It is often disconcerting to have myths shattered because it means that the belief system we adopt needs changing. However, in this case there is cause for optimism. The fact that young managers want more from their employer presents an opportunity to be more responsive. New ways to help today’s younger managers develop at work and enjoy their job have to be found. And that is a good thing because it will foster innovation. Indeed, only when innovation becomes the norm will we be able to argue that standards are not falling but, rather, that new heights can be achieved.

Jo Causon is director, Marketing and Corporate Affairs, at the Chartered Management Institute. As the only chartered professional body providing support for managers and leaders, the Institute helps individuals and employers deal with the daily challenges they face, ensuring they deliver results that make a positive impact. By working with organizations, the Institute also helps them develop and retain the best management talent, driving performance to improve the bottom line.

Jo can be contacted on:

Tel: 020 7421 2730

E-mail: [jo.causon@managers.org.uk](mailto:jo.causon@managers.org.uk)



## Share-related plans

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*Employees generally expect to see equity as part of their reward. Chris Blundell, a specialist in employment tax at Mazars, looks at the options for putting together a plan*

There is an increasingly embedded culture of share ownership in the United Kingdom. Employee share ownership has been shown to encourage employees to develop an interest in the growth and performance of their company and to make a contribution towards its future successes. With a selection of both discretionary and all-employee plans available, these arrangements now form an established part of remuneration packages. So much so that it is now more usual for a company to offer some form of share-related plan than not.

In today's business climate where companies may not be cash rich, equity arrangements are a powerful tool for structuring a competitive remuneration package efficiently. There is now a significant choice of plans available for both listed and unlisted companies seeking to provide share incentives to some or all of their employees.

### Why have a share-related plan?

These arrangements can be instrumental in:

- attracting high calibre recruits;
- motivating employees;
- rewarding key talent or all employees;
- encouraging retention;
- reinforcing the corporate identity.

## Attraction

Attracting top performers in a competitive job market means competing for the attention of the best candidates. There is a growing appreciation of the 'individual' employee which is encouraging employers to differentiate themselves from their competitors through a share-related offering which can facilitate attracting quality applicants.

Current trends reflect a shift away from pure cash compensation towards total remuneration packages, within which equity is an established element. While share awards and option grants used to be the domain of senior executives, the introduction of tax-efficient all-employee arrangements, for example employee share incentive plans and savings-related option plans, means that this is now being pushed down throughout the profile of many organizations.

The business and the employee profile and the company's goals for implementing a share-related plan will ultimately influence the decision of which plan is the best fit. Before deciding on the type of plan to implement, it is critical to identify what it is you are trying to achieve and the behaviours you are seeking to encourage. The plan may then be designed to reflect these objectives.

## Motivation

Share ownership empowers employees to help drive the business by encouraging desired behaviours and competencies where the link to the performance of the business and the subsequent reward are clearly defined and communicated.

## Reward

The use of share-related plans as a means of delivering employee reward continues to proliferate as a means of recognizing the value of the employee's contribution to the business performance. It is an opportunity to give employees the chance to share in the growth in value to which they contributed. Depending on the type of arrangement implemented, it can be a powerful way to reward past performance and drive future performance.

## Retention

Today's employees are increasingly mobile, the culture of a 'job for life' virtually consigned to the history books. As a result, employers are increasingly looking at innovative ways to 'lock in' key talent and, with a host of long-, mid- and short-term arrangements to choose from, share-related plans can support this business driver.

## Corporate identity

For a company that has undergone a major corporate event, share-related plans can be particularly powerful tools to reinforce the company's corporate identity.

## Finding the right plan

Benefits are available for both the employees and employer. To encourage employees to hold shares in their employer there are a number of arrangements that confer significant income tax and national insurance (NI) relief, if certain conditions are met. And for the company, a corporation tax deduction is an attractive carrot.

## Approved plans

‘Approved’ plans deliver favourable tax treatment but do have constraints on their design and rely on certain conditions being met and limits adhered to, which will suit some companies more than others. The approved arrangements available are broadly:

- company share option plan;
- savings-related share option plan;
- share incentive plan;
- enterprise management incentive (‘quasi’-approved).

## *Approved all-employee plans*

Of the plans listed above, two (the share incentive plan and the savings-related share option plan) are all-employee arrangements over which the company has no discretion as to who may participate. All the employees who participate must do so on similar terms.

### Share incentive plan

Employees may purchase partnership shares up to £1,500 per year. The shares are purchased from gross pay and are free of income tax and NI if they are held for five years.

The employer can also provide matching shares to employees – up to two matching shares for every partnership share the employee purchases. These shares too are free of income tax and NI if they are held for five years.

Further, employees can receive free shares up to a value of £3,000 per year. Again, there is no tax and NI if the shares are held in the plan for five years.

Any growth in the shares while they are held in the plan is free of capital gains tax.

### Savings-related share option plan

Employees contract to save a monthly amount, as a percentage of salary, into a bank or building society and in return the employees are granted options. The monthly savings can be anything from £5 to £250 and the contract can run for three, five or seven years. At the end of the savings term, employees can use the savings accrued to exercise the option, at a price that was set at the beginning of the savings term, or simply keep the monies saved.

## *Approved discretionary plans*

Discretionary plans enable companies to grant options or award shares to selected employees with complete discretion. The enterprise management incentive and company share option plans permit this discretion while still affording tax-favoured treatment.

### Company share option plan

This option arrangement allows employers to grant options to employees over shares up to a market value of £30,000. The options are granted at market value. If the options are held for at least three years after they were granted they benefit from the gain not attracting income tax or NI.

### Enterprise management incentive plan

Companies with gross assets not exceeding £30 million may grant employees options over shares up to a value of £120,000. The plan is flexible enough to allow select individuals to participate or be used to grant options on an all-employee basis.

The arrangement benefits from favourable tax treatment in that there is no income tax or NI on any gains. Instead, capital gains tax is charged when the shares are ultimately sold, with the resulting tax liability being mitigated by any unused annual exemption.

## Unapproved plans

While these plans may not confer the tax-advantageous treatment of their approved counterparts, they do offer a greater flexibility in their design that will be attractive to many companies. Performance conditions can be incorporated, specific employees or groups of employees selected and the company can make awards unencumbered by limits or conditions. These types of arrangement can also be operated in conjunction with approved plans that do confer tax advantages.

The main types of plans include:

- share option plan;
- restricted share plan;
- long-term incentive plans (L-TIPs);
- co-investment plans;
- phantom plans.

## Internationality

As companies continue to expand across borders, remuneration packages will need to reflect this. For companies with an expatriate workforce or for multinational companies, global incentive plans continue to increase in popularity.

It is likely that whatever the business objectives there is a share-related plan that can support those and deliver value to both the employer and the employee. Ultimately, the success of any share-related arrangement will largely be determined by careful design and effective communication to achieve the company's goals, be they retention, motivation or reward.

Chris Blundell is a Partner at Mazars LLP. He heads up their National Employment Tax Services team, providing advice on all employment tax issues to clients ranging from the fast-growing entrepreneurial company to the established listed corporate. His specialism is in employee reward, remuneration planning and share plan design, implementation and operation. He is a Chartered Tax Adviser, having qualified in 1991.

Tel: 0207 063 4281

E-mail: [christopher.blundell@mazars.co.uk](mailto:christopher.blundell@mazars.co.uk)

# Running a business?

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## How to contact us

### The Pensions Regulator

Napier House, Trafalgar Place, Brighton BN1 4DW

[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

[www.trusteetoolkit.com](http://www.trusteetoolkit.com)

### Customer support

Phone: **0870 606 3636** 9am to 5pm, Monday to Friday

Textphone: **0870 2433123**

Fax: **0870 2411144**

Email: [customersupport@thepensionsregulator.gov.uk](mailto:customersupport@thepensionsregulator.gov.uk)

# Work-based pensions

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*As an employer, what responsibilities do you now have for pensions and how will government efforts to increase provision affect you? This report from the Pensions Regulator explains*

The Pensions Regulator takes a proactive, risk-based approach to regulation, not a ‘tick-box approach’. This means actively gathering information about schemes and employers, assessing risks, and taking action to keep schemes on the right track.

It’s not our job to tell companies what sort of pension provision they should offer. Our role is to make sure that schemes are run properly and that all those involved comply with the law, ultimately helping to rebuild confidence in work-based pensions. Some of the ways in which this involves you, as an employer, are summarized below.

## Working with trustees

If you offer any form of trust-based scheme – not simply personal pension arrangements contracted out to a provider – you need to liaise with trustees in a number of areas. Where trustees are also your employees, they need to have sufficient paid time off to carry out their duties and undertake training. For most schemes except the smallest, at least one-third of trustees must be member-nominated.

Trustees are now legally required to possess a level of knowledge and understanding appropriate to their role. Many smaller schemes struggle to find the money or facilities for training, and with this in mind the regulator has developed free online learning (the ‘Trustee toolkit’ at [www.trusteetoolkit.com](http://www.trusteetoolkit.com)) covering all relevant topics. The training is modular, allowing trustees to dip in and out, working at their own pace.

## Communications with the regulator

Employers, like trustees and others, are required to report any significant breaches of pensions law to the regulator – for example, if you become aware that trustees are authorizing loans from the scheme to an associate.

As an employer, you must also be aware of which events are ‘notifiable’, as set out in our code of practice: you may need to notify us, for example, if there’s a change in your credit rating, and you certainly have to notify us if you cease trading in the United Kingdom.

## DC and stakeholder pensions: the basics

If you employ more than five people, you will generally need to offer employees access to a stakeholder pension – a flexible, low-cost DC (defined contribution) scheme – unless you already have an occupational scheme.

DC schemes are not risk-free. Members may lose out, for example, if administrative errors are made, or if charges are unduly high. It’s the duty of trustees to guard against these risks, but the employer should also be aware of them, and should take part in regular reviews of the scheme and its performance. In particular, HR should ensure that all changes to staff details are communicated efficiently to the scheme’s administrators.

Even in contract-based arrangements, where there are no trustees, many employers carry out a regular formal review to satisfy themselves that the company and its employees are using the scheme effectively and getting value for money.

We believe that both scheme members and employers benefit when employers proactively engage in their schemes. The benefits of engagement can include better-quality arrangements, saving time and money resolving errors, improved take-up and appreciation of the scheme, employee involvement and risk mitigation.

## DB: is your scheme underfunded?

Scheme-specific funding rules for DB (defined benefit) schemes are now in force, replacing the old Minimum Funding Requirement. Schemes must now make a realistic, prudent assessment of their liabilities, and where necessary, produce a concrete, affordable recovery plan to eliminate their deficits.

These new arrangements have brought challenges to all involved. Trustees are now responsible for consulting the scheme actuary and establishing, in agreement with the employer, an appropriate funding level. This means taking into account considerations such as the maturity of the membership, and assumptions about mortality and investment returns.

Employers, for their part, have to be much more open with trustees than in the past; trustees need information about the company’s financial position and plans if they are to reach a prudent decision on the appropriate funding level. Policies for handling conflicts of interest – for example, where the finance director is on the board of trustees – must be followed rigorously.



The circumstances of each scheme and employer are different, and it is not the regulator's role to become involved in funding negotiations. Our task is to assess the funding plans – for example, checking that the recovery period is suitable for the scheme circumstances, and that projected investment returns are not overly optimistic – and to investigate further if we believe members' benefits are at risk.

However, we must be informed if trustees and employers fail to reach an agreement, or if the scheme actuary refuses to certify the funding calculations. As a last resort, we can impose funding measures, but our first response will always be to encourage effective negotiation, involving independent advisers if necessary.

## **Clearance: getting a fair deal for the pension scheme**

Problems with funding come sharply into focus when corporate transactions or restructuring are planned. If a scheme is already underfunded it may be placed seriously at risk by any transaction which pushes it down the list of creditors, reduces the funds available to pay off the deficit, or weakens its ability to fund the scheme.

The regulator has significant powers to deal with avoidance of pension liabilities. We can issue a contribution notice requiring payment of a specific sum into the scheme, or a financial support direction requiring a connected party to take responsibility for a scheme where the sponsoring employer is a service company or insufficiently resourced. However, we have no intention of interfering with normal business activity, and for over three years we have successfully been operating a clearance process. This means that those who are planning corporate transactions can, optionally, apply to us for confirmation that we will not use our anti-avoidance powers following the proposed transaction.

When we receive an application for clearance we don't make a judgement on the merits of the transaction – and we cannot stop transactions. Our focus is purely on the potential impact on the pension scheme. We want to see that trustees have been consulted, that conflicts of interest have been addressed, and above all, that adequate mitigation is being offered to the scheme in recognition of the additional risks posed by the planned transaction.

## **Looking ahead**

It is intended that from 2012, employers will be required to enrol their employees into, and make a contribution to, a good-quality workplace pension scheme or a new personal accounts scheme.

In the coming years, we will be working closely with the Department for Work and Pensions in designing and delivering these new measures; and engaging with employers, providing a range of information and education materials, to ensure that you understand your obligations.

The Pensions Regulator is the UK regulator of work-based pension schemes. We were created in April 2005, along with the Pension Protection Fund (PPF), and the legislation gave us a clear set of objectives: to protect scheme members' benefits, to promote high standards of administration, and to reduce the risk of claims on the PPF. For more information:

- Call customer support on 0870 606 3636 for information on any aspect of our work. If necessary, the team will put you through to specialists to discuss issues of funding, corporate transactions or clearance.
- Visit [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk) to see our codes of practice, guidance and news updates. Select 'Information for employers' for specific guidance on the topics discussed in this article.
- The 'Trustee toolkit', our free online learning programme for trustees and others with an interest in pension provision, is at [www.trusteetoolkit.com](http://www.trusteetoolkit.com).
- For more information about the personal accounts scheme, visit the DWP website at [www.dwp.gov.uk](http://www.dwp.gov.uk).

## Can you afford not to?

Those that say starting up or growing a business is easy have never navigated the quagmire of running a successful business. Recent research has shown that 18 per cent of new businesses have failed in their first year, 40 per cent in their second moving up to 50 per cent in their third. However, accessing good quality business support and skills training can significantly increase the chances of a business becoming a success.

**Prevista Ltd is an independent London-based company, specializing in social, economic and cultural development, and has supported over 20,000 companies. Funded by a variety of government agencies, their services are often part or fully subsidized. Here we find out what makes their services so useful to new and developing businesses and what role they play in the government's growing commitment to the skills agenda.**

### Who are Prevista?

Prevista's approach incorporates the practical up-to-date know-how by employing business advisers and skills brokers who have specialist knowledge of their industry sectors. The majority are business owners or have managed businesses and therefore have an acute understanding of the issues which all businesses face when striving to increase profits, maintain longevity and evaluate expansion, whether a sole trader, limited company or a not-for-profit organization.

Founded in 1995 to provide quality services which were lacking at the interface between what government wanted to achieve through policy and programmes on the one hand, and what support business owners needed on the other, Prevista has grown into one of the leading companies delivering business support, skills training and brokerage services across London, the South East and further afield.

The majority of their work is heavily subsidized, as it is funded by the European Union, Regional Development Agencies and the Learning and Skills Council. As a result of this, they offer a wide range of structured support programmes from business plan development, finance and money, to NVQ qualifications and impartial skills brokerage services.

Here we look in more depth at Prevista's three core services: Business support, skills and brokerage.

### Business support

Opportunities for running a successful business are *out there for the taking*, yet competition is strong. To be successful it is necessary to focus on exactly what is unique about your business and have a clear understanding of your target market. Having a good business plan is essential when approaching banks and potential funders or investors.

Business planning is one of the most common topics requested by Prevista's clients. Their advisers facilitate clients through the process of writing or extending a plan, allowing each client to remain in complete control of how their business develops.

Alongside business planning, Prevista also offers up-to-date and applicable advice on a range of other topics, from raising finance, recruitment and legal requirements to environmental management.

An interesting example of how Prevista has supported an upcoming business is their work with Pad Media. A year before Robert Games approached Prevista he was working by day at a technology consultancy and at night as a freelance website designer. Inspired by his love of his freelance work, he set up his own website design agency called Pad Media. A year later he has built up his client base, his reputation and expanded the business.

Trevor Walker, Prevista associate business adviser, gave Robert business support through the Business London Start Up and Micro programme.

Robert says of the support, 'Trevor understands my market and the needs of my clients of varying sizes and how to bridge this divide. The experience has been of great help and my income and profit levels have increased accordingly.' Robert said he would recommend the programme to anyone starting up or already running a business. 'Getting business support can really assist a business in making money.'

### **Skills**

Research shows that 1.3 million people go to work every day without the skills they require to do their job proficiently. Getting the right workforce skills from your employees means you are better positioned to be more competitive and profitable, whether you are just starting up or an established organization.

Developing skills and creating a sustainable economy is a high priority for the government, which is why they continue to invest heavily in this agenda. Currently 6.2 million working people have fewer than 5 GCSEs A–C or equivalent and 7 million adults have literacy, numeracy and language needs.

To help combat these issues and improve the sustainability of growing companies, any business can access Level 2 and Level 3 NVQ qualifications for free, for any members of their staff, be they full-time, part-time or volunteers. This initiative is a fantastic opportunity for employers to give their staff recognition and a qualification for the roles that they play within the business. This can increase the efficiency and effectiveness of your business as a whole and can improve staff confidence and retention.

NVQs are nationally recognized qualifications which add value to your staff, volunteers and your organization. They are role-related, competence-based qualifications which offer your staff a practical learning process and an applicable qualification.

Prevista is an OCR-accredited organization, which means they are able to deliver NVQs Levels 2–3 in Customer Service, Business Administration and Management NVQ Levels 3–4. In order to qualify as a deliverer, Prevista has standards to adhere to and these are checked and verified externally on a twice yearly basis.

### **Brokerage**

Prevista provides a key brokerage service through Train to Gain, a service funded by the Learning and Skills Council to help businesses source and gain the training they need to succeed.

The Train to Gain service offers free impartial advice, matches training needs with training providers and ensures that training is delivered to meet employers' objectives. The critical factor to this programme is its impartiality; the skills brokers are not tied to any training provider; instead they recommend training options that best suit your needs. This means that it saves you time in sourcing training courses and the skills brokers can also put you in touch with other organizations which can assist your business as a whole, examples of which are apprenticeship schemes and other funded government support available.

Denise Fresco, who runs The Courier Service, is full of praise for the Train to Gain programme. 'It gives businesses the ability to access free or greatly subsidized training for their employees when they are not in a position to spend large amounts of money on training because it needs to be spent elsewhere,' she said. 'The training provides much-needed additional skills to help the efficiency and productivity of the business.'

While running a thriving business, Denise approached Train to Gain when she hit a problem. 'The staff desperately needed forklift training as a legal requirement,' said Denise. 'But as a small enterprise, money is always needed for all areas of the business and so the cost implications were a great worry.'

A solution had to be found. A Train to Gain skills broker found them free forklift training for their employees.

The Courier Service staff embarked on training for the Forklift Competency Certificate, and Specialist Plant and Machinery Operations NVQ Level 2.

'My employees completed the Forklift Competency Certificate and they are now doing their NVQ Level 2 in Specialist Plant and Machinery Operations,' said Denise. 'They now feel confident and are competent in operating the forklift, which helps them to do their job more efficiently. They feel valued by their employer and are happy that they are achieving qualifications in their specialist field.'

She added: 'The training has been excellent. The skills broker was extremely helpful, the trainer was fantastic and was happy to fit the training around our timetable. We are looking to do IT training through this programme in the near future.'

**To find out more about Prevista, their services, client history and the government's commitment to sustaining new and established businesses, visit [www.prevista.co.uk](http://www.prevista.co.uk)**

# Space for growth

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# New premises

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*Outgrowing your premises? Ross Feeney, Director of Communications and Business Representation, South London Business Ltd, looks at your options*

Anyone who has moved house will know how time consuming it can be. Trawling properties with estate agents to find the right one is just the tip of the iceberg; one still needs to agree a price, engage a solicitor, undertake surveys, agree and exchange contracts and then finally begin the rigmarole of packing, moving and resettling – it is enough to fill anyone with dread. For those who own or run a growing business it is likely that, at some point, new or additional premises will have to be secured. The anxiety of relocating is compounded by the additional stresses of how the relocation will affect the business; will existing clientele or staff be lost?

Companies are more often than not in their trading locations because of moments of historical significance. It is not uncommon for a business to be located near to the home of the founding chairman/chief executive when the company was established – particularly outside of Central London. Employees are also likely to live locally and it goes without saying that the local community will generally form a solid portion of the business's clientele.

Often an expanding business on small premises leaves for an unfavourable working environment (size or location) – relocation may be the obvious solution to resolve these conditions; however, it could be more conducive to upgrade your existing offices. Local authorities are always keen to retain businesses, and planning and economic development officers will be able to assist you prepare a sound economic case for planning approval. Make contact with the economic development or regeneration officers within your local authority, invite them to visit your current premises,



and ask them for advice on how to prepare a planning application. Should relocation be the only option, local authorities may be able to suggest alternative premises local to your current position where the offices may just require upgrading.

The key to a growing business is the employees who have generated the success that the business has achieved thus far. It is therefore imperative to maintain those employees as the business relocates. Communicating the intent to relocate, the reasoning behind the move and gathering the opinions of your employees will assist in maintaining morale. Determining where your key employees reside and how they will be affected by the move, and solutions which will make relocating easier, will leave employees feeling safeguarded and valued.

Before your business moves into the new premises, make contact with representatives from the local business community, the Chamber of Commerce or a representative from the local branch of your business or trade association. Make them aware of your impending move and encourage them to promote your relocation.

So, how do you find new premise to rent or buy? The information below should provide a good starting point.

Advice and guidance on how and where to move can be sought, commercially, from a variety of location consultants and commercial agents. However, free information, advice and guidance can often be sourced through the internet. Google is a great research tool, but it is worth remembering that local authorities, Business Link and regional development agencies (publicly funded bodies set up to promote and develop economic prosperity) are also good sources of information.

Since 2002 the regional development agencies have created (or safeguarded) over 500,000 jobs, created over 56,000 new businesses and brought over 5,600 hectares of brownfield land to life. In partnership with the London Development Agency (London's regional development agency) and nine south London local authorities, South London Business operates an online commercial property database – enabling companies from Bromley to Beijing to find the right property for their investment/relocation. The database has been designed to be easy to use, and information can be accessed on various different types of property (office, retail, industrial, restaurant) by particular borough or even by particular town. By simply inputting the type, size and location of property required, the database will provide you with a list of properties that match your search requirements. By following the on-screen prompts, users can then select the particular properties they are interested in, input an e-mail address, and the database will automatically forward the sales agent's details on that property.

Alternatively, if your geographic area is not covered by a free-access property search tool, use Google to search for commercial property agents in the area. Commercial agents will have solid market intelligence on properties that are on the market, what land is available, and also what properties are likely to be coming onto the market in coming months. Build relationships with these agents and brief them on your requirements – what type of property you require (including any specific 'must-haves' like a wide turning circle, weekend access, or double-height ceilings) – your budget and timescale for moving. The agent will then be able to provide you with options for consideration.

## How do I find out who owns particular premises or land?

1. Look for the property agent's bill board outside the property you are interested in and contact the agent directly.
2. If there are no agents' details available and if the property can be identified by a single postal address (for example, 23 Acacia Road, London), you can use the Land Registry Online website to download copies of title information for a minimum £3.00 fee, payable by credit or debit card. Title deeds disclose ownership, boundaries, plans, covenants, charges, prices, rights of way and insolvency.

If you are enquiring about land (or property which cannot easily be identified by a postal address), you need to provide a plan showing the location of the land or property. You should attach this to the Form OC1. The plan must be drawn to a scale of at least 1:2500 or 1:1250, whichever is the largest-scale Ordnance Survey map available for the area. Alternatively, you can request a copy from any Land Registry office or purchase it from any legal stationer. Send the completed form to the correct land registry for the area in which the land is located.

Further information can be found on the following websites:

[www.landregistry.gov.uk](http://www.landregistry.gov.uk)

[www.businesslink.gov.uk](http://www.businesslink.gov.uk)

[www.englishsrds.com](http://www.englishsrds.com)

[www.southlondonbusiness.co.uk/property](http://www.southlondonbusiness.co.uk/property)

Ross Feeney is Director of Communications & Business Representation at South London Business (SLB) – the voice of business in south London. SLB exists to represent and promote the business community south of the Thames – articulating the needs and concerns of business to local, regional and central government.

Further information on South London Business can be found via  
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## Pride of place

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*Paul Stephens, chief economic services officer at Leeds City Council, reflects on the impact of urban regeneration, the environmental agenda and the importance of place-making on business location decisions*

Unprecedented levels of development and continued investment have led to the re-emergence of UK cities as major economic drivers. They have also created new and prestigious locations for business, particularly in the financial and professional services sectors.

Leeds, Manchester, Liverpool, Bristol and Birmingham city centres are resplendent with brand new glass-fronted office developments, while former warehousing and industrial buildings have been converted into mixed-use developments, boutique hotels and trendy waterfront apartments.

At the same time, the development surge and the expansion of city centres beyond their traditional cores have created problems for businesses in traditional sectors. Rising land values, combined with planning restrictions on land uses, have made expansion of existing premises difficult or impossible for some companies.

Those with warehousing and factories in city centres or near residential areas have been particularly affected. Increasing traffic volumes and the possibility of congestion charging being extended to cities outside the capital have increased the sense of encirclement, making city centre locations less attractive for businesses whose operations rely on access to the transportation network for the movement of goods and services.

### Breaking out of the encirclement

Some companies have been able to turn the threat into a strategic business opportunity. They have taken advantage of rising land values in residential areas and city

centre locations to release capital by selling their existing premises to finance the relocation of the business to new premises in out-of-town locations. It's a trend that is apparent among many long-established distribution and manufacturing companies based in inner city and 'edge of centre' locations.

Print company Robertsmart was one of the early adopters of this trend in Leeds. The company relocated from its city centre premises in anticipation of the development of the East Leeds Link Road, a new dual carriageway linking the inner ring road to the motorway network out to the east of the city. Bush Engineering is another Leeds manufacturer which has taken advantage of rising land values to move from a city centre location to a larger site closer to the motorway network.

The move from multi-storey and multi-building premises into modern industrial units provided the opportunity to streamline production processes, leading to increased efficiency and enhanced competitiveness. Longer term, it will give both companies direct motorway access and room for future expansion.

Workforce retention is the problem that wholesale relocation of this kind creates. It's a management platitude that a company's most valuable asset is its workforce but it is nonetheless true. Even when the relocation involves moving across town or to another part of the city, the advantages of cheaper and more efficient premises have to be weighed against the possibility of losing skilled and experienced staff.

Companies choosing out-of-town locations have responded by developing car share initiatives and by working with public transport providers to introduce new services so that its employees can get to the new premises.

Forward-thinking developers have taken a similarly proactive approach to solving the problem. Thorpe Park Leeds, for example, one of the largest business parks in the country, offers a dedicated shuttle bus service which runs to and from the local railway station.

Slip roads provide direct access to and from the motorway; on-site restaurants, a hotel and spa provide occupiers with the kind of facilities and conveniences they need to attract and retain employees. It's a trend that's being replicated elsewhere in Leeds and around the country, with office developers going out of their way to woo tenants.

## **Business and the environment**

Until recently the environmental agenda hasn't had a significant impact on the design and construction of commercial premises. Image, access, amenity and cost have been the key considerations.

Despite the case that can be made for payback in the long term, only a minority – largely the high-end occupiers able to afford a good environmental conscience – have been willing to pay the level of rents that make sustainable development a viable commercial proposition.

However, soaring fuel and energy costs, combined with new government legislation, have placed the issue of sustainability high on the agenda for business and, suddenly, cutting carbon emissions has become much more than a matter of corporate social responsibility.

Few businesses have thought through the implications of the legislation, introduced in 2008, which will make energy performance certificates compulsory for the

construction, selling and letting of all commercial buildings. Certification involves carrying out a detailed audit of the building's construction, including details of the heating system, lighting, energy insulation and information on machinery and electrical engineering plant, to calculate the level of carbon emissions.

For the time being, energy performance certificates are being regarded as just another box to tick before you can let or rent a property. The legislation may also place tenants or buyers in a stronger negotiating position if a building receives a low energy efficiency rating.

Ultimately though, in the same way that 'gas guzzling' vehicles are set to be penalized with higher road tax, businesses occupying energy-inefficient premises could also find themselves facing higher costs as a result of the government-led drive to reduce energy consumption and cut carbon emissions.

## An act of faith

For large multinationals operating in the age of globalization and commodified markets, location is driven by access to markets, raw materials and labour costs. Again, rising transportation and fuel costs are likely to have a significant impact on location decisions in future, pointing towards a more localized presence to access localized markets and supply chains.

But for lots of businesses, location is decided as much by personal circumstances and historical accident as business strategy. To put it simply, a business will most often be located in or near a particular town or city because that's where the chairman or managing director lives. And it's no surprise, therefore, that family-owned businesses remain in the same location for generations, although many have reached a point where they now face the kind of situations and decisions already described.

However, location can also be an act of faith. To return to the theme of regeneration and the development of UK cities in recent years, many small and new businesses have been attracted into an area because they can see its potential to develop as a business location with a unique and distinctive sense of place.

This is something we have seen in Birmingham's Jewellery Quarter, in Manchester's Castlefield and which we are now seeing here in Leeds with the development of Holbeck Urban Village. Previously home to engineering workshops, mill buildings and factories, the area is now attracting a new generation of entrepreneurs who are drawn by its proximity to the city centre, by the area's history and by its distinctiveness as a place.

Sympathetic restoration of listed buildings such as the Round Foundry has been a catalyst in the development of a cluster of architectural, creative and digital media companies in Holbeck. Restoration and enhancement of the waterfront as part of the redevelopment of the canal basin around Granary Wharf will provide further impetus to the development of the area.

But none of this would be possible without the people who brought their businesses to the area because they could see the possibilities and understood the potential of the area as a thriving new business and residential community. Call it an act of faith, a

calculated business decision or vision, it's probably a combination of the three but sometimes that's what deciding where to locate your business requires.

Paul Stephens is Leeds City Council's chief economic services officer, with responsibility for business and enterprise, city centre management, tourism and major regeneration programmes. Leeds is one of the United Kingdom's most successful cities and has benefited from over a decade of continuous economic and employment growth. The council provides a range of support and assistance to companies looking for new premises, whether to relocate or expand their operations.

Tel: 0113 247 4660

E-mail: [paul.stephens@leeds.gov.uk](mailto:paul.stephens@leeds.gov.uk)

## Easy in, easy out

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*To weather the storm, you want to keep flexible in changing the size and shape of the workplace, says Tom Stokes, managing director of Evans Easyspace Ltd*

With the storm clouds gathering, and news headlines proclaiming tough trading conditions ahead, company directors and managers across the country are looking at ways of shoring up their businesses during the rainy season. At this point, no one knows the potential depth, length or severity of the downturn.

The challenges for business therefore – of all shapes and sizes – are many. But key among these will be how to navigate through difficult and constantly changing economic conditions, and how to keep your business flexible, to be ready to jump at opportunity when the climate improves.

There is no easy answer, and for each business there is a different solution. A wholesale review of the fixed overheads and an examination of where and how these can be altered are, however, where most will start. And as part of this process, a real estate review will be crucial.

Selecting the right premises – on the right terms – is absolutely fundamental to the ability of a business to survive and prosper in the current conditions. It is also one of the areas of business management that will have the greatest impact on maintaining optimum flexibility.

Put simply, companies have to have an exit route. The ability to change the size and shape of the workplace is critical in assisting the development of a company, as is the ability to move out altogether when the time is right – not just when the lease expires or the long-term contract dictates. Historically, occupiers have been forced into major long-term leasing commitments on fixed amounts of space, with onerous break



clauses and penalties, and the constraints on their business have been clear. It is a bizarre thought that, like goldfish in a bowl, many companies just grow to the size or shape that their property allows them to – and no more.

Happily, there have been significant advancements in the property industry over the past 15–20 years, with the evolution of managed business centres covering a whole spectrum from fully serviced offices to managed workspace.

In contrast to the traditional real-estate commitment of a long lease on a set amount of floor space, managed business centres offer total flexibility. Leases may be negotiated for a period of just two months, with all occupational costs and office amenities included in the figure. This means that not only is total flexibility provided in the physical accommodation, and the occupier can move, expand or contract at a moment's notice, but that total convenience is also provided. With transparent costs so that there are no hidden charges for the occupier to have to factor in (such as rates or service charges) and support services available, the occupier is free to focus 100 per cent on the development of the business, rather than the management of the property.

One sector of the UK business spectrum that has been quick to spot the advantages of the managed business centre environment is the small and medium enterprises (SMEs).

Interestingly, while some will be affected by the current economic uncertainties, the SME sector as a whole tends to be very resilient. History shows us that in the major recession of the early 1990s, it was the SMEs that weathered the downturn the best, with their positive, problem-solving attitudes and their innovative approach to managing their business to maintain flexibility. It is no coincidence that their preference for managed office space has played a large part in this.

With this support, the managed business centre sector itself has undergone major growth in recent years, a trend which shows no sign of slowing down. There are currently around 650 bca (Business Centre Association) member locations across the United Kingdom, providing over 40 million sq ft of office space to 40,000 SME-sized companies, and the sector is forecast to experience an overall growth of 3 per cent over the course of the next 12 months.

It takes only a minor change of economic fortune for larger companies and corporates to re-examine their property requirements, too, and reconsider the merits of entering into long-term commitments during, potentially, a falling market. Plus, in any downturn, the nature of business changes, and much of the commercial world becomes more risk-averse and more short-term in its approach. This will often lead to shorter-term contracts, requiring companies to resource accordingly which, in turn, will prompt the requirement for satellite offices as companies draft teams up to fulfil these 'open and closed' projects. Once again, the managed business centre will provide a quick, cost-effective and flexible solution.

In summary, setting up and/or managing a business will always have its risks. Setting up and/or managing a business during uncertain economic times will have far greater risks – so the trick, in as much as there can be one, is to minimize the risk factors as far as possible. A long-term commitment on a property that ultimately could constrain the business, or is impossible to reduce should circumstances change, is, at the moment, an unacceptable risk. To put this in human resources terms, what

company would commit to an employment contract – with a penalty for breaking it – for a minimum of five years?

It is no surprise that more and more companies are turning to managed business centres as a means of minimizing risk and maintaining flexibility. What will be interesting to note, however, as the economy turns the corner and begins to grow again, is how quickly (and which) UK businesses are in the strongest position to respond to it.

Tom Stokes, FRICS, is managing director of Evans Easyspace Ltd, a managed workspace company originally set up by the Evans Property Group. He is also chairman of the Business Centre Association (bca).

Further details:

Tel: 0113 223 1248

E-mail: [tomstokes@evanseasyspace.com](mailto:tomstokes@evanseasyspace.com)

[www.evanseasyspace.com](http://www.evanseasyspace.com).

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# Cash flow and working capital

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# Funding options for growing enterprises

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*Growth of 5–10 per cent is possible on retained profits. But what if there is scope to achieve more? Adam Powell at Simply Business looks at the options in the banking market and from alternative sources*

At any time in the economic cycle, some businesses grow, some decline and some remain fairly static. There are numerous influences that determine what happens to a company's turnover, but a consistent reason cited for slow growth is lack of working capital.

For an entrepreneur seeking to exploit a unique world-changing product or idea, it is hard enough 'breaking down doors' to sell your company's offering; then, when you finally win a massive contract, with the potential to double your annual sales, you start to focus on the logistics.

Ok, you've sourced a supplier with a price that will give you a massive margin, and you revised your production capacity to allow a 15-day turnaround without affecting existing production and you've worked out the transport and warehousing to make it as smooth as possible.

You know this is going to add £150K to your bottom line – fantastic! Place the order with your supplier, schedule in the extra capacity in your factory and you're away. But hold on – your accountant has done a cash-flow forecast and oh dear! There's a hole! – a big hole! – you've got to pay your supplier in 30 days, you need 15 days to turn raw materials into finished product and the new customer has demanded 60 days' credit. What next?

Below are some of the options you might consider in a variety of circumstances:

1. Approach suppliers for credit terms or longer credit.
2. Become an agent for the supplier.
3. Get payment in advance from customers.
4. Demand cash on delivery.
5. Take credit card payments on delivery.
6. Bank overdraft.
7. Inject capital – shares or directors’ loans.
8. Venture capital.
9. Public listing – AIM etc.
10. Business loan.
11. Factoring/discounting.
12. Trade finance.
13. Payroll finance.
14. Delay payments to HMRC and other creditors – rent, rates, power company, staff etc.
15. Increase margin – charge more, buy cheaper.
16. Sell assets, or reduce stock.
17. Wait.

The availability and effectiveness of each of these options varies according to the industry sector and the stage in a company’s development; half of these are relevant to the scenario above.

**Table 6.1.1** Comparing options

Method	Accessible	Sustainable	Risk	B2B	B2C	Effectiveness
Suppliers	Uncertain	Possibly	Some	Yes	Yes	Variable
Agency	Usually	Uncertain	High	Yes	Yes	Very
Proforma	Usually	Possibly	Some	Yes	Yes	Limited
COD	Usually	Unlikely	Low	Yes (small)	Yes	Very
Credit card	Usually	Possibly	Low	Yes	Yes	Limited
Overdraft	Uncertain	Possibly	Low	Yes	Yes	Limited
Invest	Uncertain	Possibly	Personal	Yes	Yes	Very
Venture	V Uncertain	2–5 years	High	Yes	Yes	Variable
AIM	V Uncertain	Yes	Some	Yes	Yes	Very
Loan	Uncertain	Yes	Some	Yes	Yes	Very
Factoring	Usually	Yes	Low	Yes	No	Very
Trade finance	Uncertain	Possibly	Some	Yes	No	Very
Payroll	Usually	Usually	Low	Yes	Yes	Very
Delay pay	Usually	No	High	Yes	Yes	Limited
Margin	Usually	No	High	Yes	Yes	Limited
Asset sale	Not usually	One off hit	Low	Yes	Yes	Variable
Wait	Always	Yes	Low	Yes	Yes	V Limited

Large multinationals have the option to unilaterally decide to delay paying suppliers and can simply announce this decision, leaving their suppliers with the option of losing a significant customer (sometimes the difference between saving and losing their business) or accepting the change and looking for their own ways to finance this extended credit. For the rest, it is part of a negotiating process which may lead to a trade-off where the supplier asks for a higher price for goods.

Becoming an agent for the supplier can only work for a distribution business and has major drawbacks. Firstly, this opens up the possibility of being cut out of the equation and of the two other parties trading directly with each other. Secondly, turnover drops with a knock-on effect on buying power, credit status and margins, all of which can be detrimental in the development of the business.

Requesting payment in advance from the general public or small non-established businesses may be acceptable to them and may avoid potential bad debt; however, for any established business seeking to grow their own turnover, this reduces the attractiveness of trading with you, and your customer may choose to buy elsewhere. Large companies you sell to will probably ignore the request, leaving you with the option of fulfilling the order on credit, or refusing to supply.

Cash on delivery has similar issues to payment in advance (or proforma invoicing). In some ways it is worse, in that you may have expended time and money in producing goods, only to find that your customer cannot pay and therefore take delivery of the goods. A large company will almost certainly not be geared up to pay cash on delivery.

Credit card, on delivery, limits the sales opportunity to customers with access to credit cards – again this is probably fine with the general public and small traders, but as companies become more established they rely on a period of credit to sustain their own working capital and will find this a reason to source elsewhere.

The bank overdraft has traditionally been the way British business has funded working capital. In the absence of adverse credit history the local bank manager has matched start-up capital raised by the proprietor, to effectively double the capital base. So long as the initial growth of the business is modest, the overdraft provides some method to cope with the purchase of stock. This leaves little headroom to extend credit to customers, until such time as credit from suppliers is available. The bank manager is unlikely to increase the overdraft without formal accounting information showing retained profits. At best a modest increase in turnover and net worth will provide the bank manager with sufficient confidence for a modest increase in the overdraft limit.

Injecting capital through shareholding or directors' loans can be the most effective and cheapest way to finance growth; however, this presupposes that you have the personal funds to do this. In many cases, equity in the main residence was the first source of start-up capital for the business and for the entrepreneur leaving a safe employed job to establish their own business; this may not be an option for a while. The mortgage lender will be reluctant to advance at a higher level until the new business is well established and sustained profitability has been shown.

Venture capital is very difficult to obtain, frequently means you lose overall control of your business and is potentially the most expensive in terms of the long-term profitability of the business.



VCs with money to invest are usually looking for a combination of low risk and high return – they may have a portfolio of investments with a range of risk and return levels but will invariably wish to minimize risk and maximize return.

In approaching these people, you will need to demonstrate the potential for a high return – not just for you and by your standards, but for the VC and by their standards.

The VC needs to have faith that you are capable of delivering large profits and this can only be done with a robust business plan, which in turn can be time consuming and costly.

Much is made on the *Dragon's Den* programme of the contacts and advice that a VC can assist with; however, this is a further drain on the VC's time, which he may factor into the decision about whether to invest.

AIM listing is open to companies looking to raise substantial funds but carries responsibilities of reporting that many will find difficult to adjust to.

As with VC funding, you would need to prepare a prospectus, for potential investors, that explains why your business is a worthwhile investment. Owing to the nature of this market, you will probably need to demonstrate some proven track record to achieve this.

A business loan is usually sourced from the clearing bank your company deals with and carries some of the same issues associated with the overdraft; however, this is usually available to buy a specific piece of capital equipment, for which a good business case will have to be presented to the bank. In summary something like 'In buying the Multitool 5000 costing £25,000 spread over three years, I will save £20,000 p.a. in wages and increase production by 5,000 units per week. The increased units will generate £5,000 per annum extra profit and therefore I will recover cost of the machine in year one and the machine has a useful life of 10 years.' In practice, you would need to provide more figures including cash flow and budgets with and without the machine, but the case for a business loan is easier for an established business to demonstrate and to obtain.

Factoring or its derivative, invoice discounting, is suitable for those businesses trading on credit with other businesses or government agencies. It has the advantage that because it is secured against accounts receivable, factoring is available to new-start and established businesses alike. Facilities are usually more expensive than overdraft lending, but can include credit control, sales ledger management and credit cover at a lower cost than employing someone to do these for you. Because funding grows as your turnover grows, it is particularly suitable for companies forecasting rapid growth. Overdraft lending can be ineffective for companies with rapid growth, owing to the potential for overtrading. Factoring has built-in protection against this, in that the factor can advise and protect against bad debts making growth sustainable.

Where factoring is less effective is in financing sales that are not clear cut and where there exists potential for counter-claims from customers who refuse to pay owing to disputes relating to non-performance or delivery. For this reason, factors may seek to establish proof of debt at the outset of the facility.

More established companies with good credit control routines may prefer confidential invoice discounting, which carries the funding element of factoring without the credit control element or disclosure to customers. The price of this facility

compared to factoring starts to fall at around the £1m turnover level and starts to become competitive with overdraft funding as turnover increases – for many customers of factoring, this is a natural extension as business develops.

Trade finance is suitable for companies that import goods against an order from a single or small number of companies and where the margin on the sale is substantial. Usually the finance is available to companies whose people have a proven track record in importing that product, with a working knowledge of the manufacturer, which provides reassurance as to quality and ability to deliver on time.

The trade finance will potentially cover the purchase price, the tax and duty on the goods and the delivery cost. But in doing so the financier will need sufficient margin to be confident that they can recover the costs in case of cancelled orders etc.

Payroll finance is most suitable for recruitment companies providing temporary labour. This type of funding is often in conjunction with back office services and HR advice, which for a company without the resources to conduct that function themselves is worth considering, owing to the high level of funding available (up to 100 per cent of payroll and with HMRC payments accounted for). The price varies according to turnover and the number and frequency of staff to be paid, but is a predictable percentage of margin. It is attractive to lenders, who view it as a very secure form of lending.

Payroll finance of a more general kind is now available to all companies over a year old and turning over more than £100K, with a regular payroll for five or more staff, and can provide a rolling two months of funding, without affecting other facilities, secured against a debenture.

Delaying payments to other creditors may provide a short-term fix, but is not sustainable and may lead to deterioration in credit status and, worse still, county court action for recovery. Delays in paying staff may cause key personnel to leave. Other key services can be cut off for non-payment.

Increasing margin sounds good on the face of it, but what does it mean? If you charge more for the same delivery of goods or services, you will probably reduce demand, which may ease cash-flow problems, and the effect on profitability overall may at best improve or be unaffected. If you use lower-quality goods, raw materials or staff, you may be able to increase profitability in the short term and may even be able to extend payment time by using these cheaper resources; however, eventually customers will notice the reduced quality and may either leave you or increase complaints and returns.

Selling assets can release cash, but either these are assets which the company does not use, which is unlikely in a growth business, or they have an effect on the capacity of the business, in which case this will adversely affect growth. The simpler option may be to reduce stock, which, if feasible, is probably the best option long term for most businesses; however, this assumes that you can sell the stock you have quickly enough and in the amounts you need to generate the required cash, and you can still supply your customers without undue delay, for the orders they place.

Too much stock is undoubtedly unhealthy and carries risks of obsolescence and deterioration. It also has an associated funding cost and impacts adversely on cash flow.

Waiting to grow is the most frustrating option for an entrepreneur who sees strong demand for his product or service; however, for many years this was the fate of a large section of the country's business community. Retained profits are a sustainable source of working capital, but take the longest time to grow. In most cases growth of 5–10 per cent per annum is possible through profit retention. With factoring, growth of 50–100 per cent is quite commonplace.

Simply Business is the flagship brand of Xbridge Limited, the United Kingdom's leading broker for finance and insurance specializing in owner-managed businesses.

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Further details from Adam Powell, head of lending at Xbridge.

Tel: 020 7920 8000

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# Slow payments

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*Do not suffer in silence. There are a series of simple, positive steps you can take to get the cash flowing, says Martin Williams, managing director of Graydon*

No matter what size your business is, a sale is only a sale when the invoice is paid. Cash flow is an essential ingredient for business continuity and success, so it is vital that a business does everything it can to collect cash from customers on time.

Since it is estimated that around half of all UK trade invoices are paid late, it is fair to assume that most businesses will experience issues relating to delayed payments from clients. This perennial problem has been exacerbated still further by the current credit crunch. Unfortunately, it's also true that smaller businesses will probably suffer most from this affliction. That's because many bigger organizations 'bully' smaller suppliers into accepting slower payments, in the knowledge that the smaller supplier is so grateful for the business that it will turn a blind eye to tardy invoice settlements. Secondly, most growing companies cannot afford to employ a professional credit manager, who would normally have a range of tricks and skills to get the cash in on time.

It's not all gloom and doom, however. If you are a small and growing business, a number of positive steps can be taken to minimize the impact of late payments, even avoid them altogether, without going to the expense of hiring a credit management professional.

Firstly, the law is on your side! The Late Payment of Commercial Debts (Interest) Act of 1998 gives small businesses the right to charge debtors interest on overdue payments. The large majority of small businesses are worried about pushing for this right for fear of upsetting/losing the customer, but in the southwest

of England, a recent survey suggested that as many as 29 per cent of businesses regularly added interest to overdue invoices, so maybe they're a little braver in the West Country than most!

Please recognize that cash flow is the lifeblood of your business – don't just take excuses for delayed payments with a submissive acceptance speech. The British in particular can be too darned polite and accommodating in these situations; like being too reticent in complaining about poor food or service in restaurants. Anything but make a fuss, eh!!

Take note: any perceived lack of interest or urgency by a supplier in getting paid will be seen as weakness by the slow payer, and that would mean your outstanding invoice going to the bottom of the finance department's in-tray. So be polite but assertive in asking for what you want.

Secondly, spread your risk. As a small business, be careful about having too many eggs in one basket with regards to commercial trade debt. There are countless tales of smaller companies going to the wall because a large customer accounting for a disproportionate amount of sales turnover did not pay up on time. Pareto's Law is a good indicator as to what customer mix should be aimed for (80 per cent of turnover should come from the top 20 per cent of your client base).

Here are 10 more ways to improve cash collection:

1. *Sign your customer up.* Ensure your company has got a signed contract with the customer that clearly states your payment terms. These terms should also be clearly described on your application forms and the invoices you subsequently send out. Be sure they know what the credit terms are, whether you offer discounts for prompt payments or bulk purchases, whether additional costs are payable (eg VAT or carriage costs), and whether you charge interest on overdue accounts (all businesses are legally entitled to do this).
2. *Do a credit check.* Buy a credit report from a recognized credit reference agency; especially one that collects trade payment information on how large companies pay their bills, eg Graydon, Experian, and Dun & Bradstreet. Don't rely totally on the taking up of two references given to you by the potential client. They may be cultivated! Don't be taken in either by a great-looking set of accounts to determine whether you will get paid on time; a healthy-looking balance sheet might mean that your potential customer is very proficient in getting its suppliers to finance its business. Set a credit limit for each new client, and don't allow customers to exceed limits without your permission. After all, they are set for a good reason, as you have assessed the creditworthiness of the customer and how much your business can afford to wait for (or lose, should the worst scenario occur).
3. *Is a purchase order required?* As part of their internal control procedures, large companies often require signed purchase orders before paying invoices. Ask the manager/department placing the order whether they need to raise an internal PO, and if so, have they done so, covering the value of the order. Ask for a copy of the PO (NB: some large companies require invoices from suppliers to quote the PO number before they are paid).

4. *Prevent excuses.* Prevent excuses for delayed payment – after dispatching goods, ensure that your customer has received them and that there are no problems with quantity or quality.
5. *Send statements.* Send statements at different times in the month to your invoices. Sometimes this tactic can provoke questions, particularly when original invoices have been lost, not received, or mislaid.
6. *Check on expected pay date.* Confirm with your client when your bill is expected to be paid, remembering to ask whether they have specific cheque-run dates.
7. *Use the telephone (or even personal visit) to chase.* If payment is delayed, chase your money by telephone rather than letter. Some experts in this field say that the telephone method can be 80 per cent more effective. Always prioritize your cash collection activity, making sure you chase the oldest and largest debts first. Be friendly but firm when speaking with them, and don't forget to remind them that you could charge interest on all late payments. If it's a big debt, don't dismiss the idea of turning up on the doorstep and waiting for your cheque. It does work!!
8. *Maximize your bargaining power.* Maximize your leverage. Try to establish how valuable the product you're selling is to your client. It may be a vital component in a manufacturing process, especially if it has been developed to the client's own specifications.
9. *Monitor your risk portfolio.* Keep abreast of news that may affect the creditworthiness of your key clients. Put their names on a low-cost monitoring service with a credit reference agency (Graydon's service is called CreditWatch). There is nothing worse than being the last to know when something has happened to one of your key customers.
10. *Develop a 'friend'.* Try to establish a personal rapport with one or two people in your client's Accounts department. The personal touch never fails!

The message could not be clearer. If smaller businesses follow this advice, they will find that cash-flow difficulties will ease. This course of action will be far better than doing nothing about slow payments, particularly from large organizations (apparently, half of small businesses continue to suffer slow payments in silence for fear of losing 'valuable accounts'), or do the extreme opposite, ie close the account. Two things are certain – large companies are not going to change their bullying payment habits overnight, and there will always be clients with genuine cash-flow difficulties that cannot pay up on time.

It is time for small businesses to take positive action for themselves.

For more information – Graydon UK Limited – [www.graydon.co.uk](http://www.graydon.co.uk); Federation of Small Businesses – <http://www.fsb.org.uk>; The Better Payment Practice Group – <http://www.payontime.co.uk>.

Martin Williams has spent the past 30 years in the credit information industry. For the first nine years, he held a number of management positions with Dun & Bradstreet UK, but was transferred in 1984 to Dun & Bradstreet

Europe, as part of a high-level team employed to help Dun & Bradstreet companies in Europe to computerize their operations. In 1987, Martin moved to Graydon, which is now one of the top five players in the United Kingdom. Since 1989, Martin has been a board director of Graydon UK and became managing director in 2001. Martin is currently the president of Eurogate, a network of European credit information agencies, of which Graydon is a part. He has also been a member of the Institute of Credit Management in the United Kingdom since 1991, and is a regular presenter and speaker at credit management forums in the United Kingdom.

Graydon UK is one of the leading database information providers specializing in credit risk management. The company helps clients reduce the uncertainty of commercial risk by providing a high-quality package of credit scoring, credit rating and credit risk management services. Graydon provides access to credit information and reports on more than 70 million companies in more than 130 countries worldwide. The Graydon group is owned by Atradius, Coface and Euler Hermes, three of Europe's leading credit insurance organizations.

For additional information, visit [www.graydon.co.uk](http://www.graydon.co.uk).



# Asset-based lending

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*How can you forward cash against your assets? Ross McFarlane, director at RBS Invoice Finance, explains*

These days the availability of working capital is an issue faced by most, if not all, large businesses. Therefore, borrowing to increase liquidity is a significant part of today's corporate environment.

That is why it is vital that you choose the most appropriate method of funding. Getting this right can make the difference between sustaining your business, and growing it and taking it to the next level.

Asset-based financial services organizations play a vital part in financing the economy and are dedicated to the growth and well-being of their clients. They provide their clients with cash by lending on fixed assets, accounts receivable and inventory. They include the asset-based lending arms of domestic and foreign commercial banks and small and large independent finance companies.

Asset-based lending (ABL) is a cost-effective alternative for growing businesses to increase working capital without having to slow business growth or raise equity. A business cannot flourish just because it may have a better product, an exclusive market or the best method of distribution. The catalyst required for progress is cash flow and growth.

ABL can be used when:

- operating cash is tied up in receivables;
- the best trade terms for supplies create cash-flow shortages;
- inventory levels are high because of client demands;
- sales growth is straining resources;

- seasonality peaks cause problems;
- no fixed assets are available for collateral;
- trade discounts and special pricing terms cannot be obtained;
- letters of credit are required to supply or buy overseas;
- debtor-in-possession financing is required;
- preserve management equity;
- secure early cash/loan repayment is required.

## What are the benefits of ABL?

- Creates leverage against company assets, ie acceleration of cash flow to support working capital needs.
- Cost-efficient alternative for a business that needs to generate more working capital without having to slow its growth or raise equity.
- Allows for seasonal fluctuations in working capital requirements.
- Reduces loan through collection of receivables and sale of assets.
- Provides more flexible covenants and repayment schedules than traditional bank lines.

Employing flexible funding structures, such as ABL or stand-alone invoice finance, allows a business to immediately realize the cash benefit of its sales; given that the level of finance available is directly proportional to sales, funding should automatically increase as a business expands. This flexibility links into the attractiveness of ABL, which is becoming more prevalent in the structuring of deals in today's market. The market has witnessed a rapid development in the use of finance, secured against assets such as stock and plant and machinery, alongside invoice financing. In addition, ABL providers are financing more challenging debt structures, including issues such as contractual debtors, high levels of export sales and multi-jurisdictional deals.

ABL is well placed to release much-needed liquidity into the economy. The level of debt availability is calculated on an asset-backed formula approach with additional asset controls and monitoring, rather than relying on a profitability and cash generation approach to repay facilities through more traditional lending methods.

We have seen that as the market begins to mature there is a greater acceptance of ABL as a viable alternative to other forms of financing. A major benefit of ABL is its ability to maximize cash-flow headroom, something that is so critical in the early days post a leveraged transaction. This to my mind is one of the key reasons why it has become a more widely used and accepted tool during fund raising/refinancing exercises. ABL provides greater flexibility and availability of funding as assets increase, allowing the finance director to remain firmly in control of the company's cash flow.

Markets move, and so do reactions to that movement. ABL is now much more widely talked about in the leverage arena, but also in the ongoing relationship management of day-to-day funding for companies. More and more people are exploring the options that ABL can provide and we see it becoming a more common method of funding for the foreseeable future.

### **Bairds Malt**

One example of a company that employed ABL to assist its future growth plans is Bairds Malt – a major UK supplier of high-quality malt products to the brewing and distilling industries. Early in 2008 the company secured a £35 million asset-based lending funding package as part of a total facility of £60m provided by The Royal Bank of Scotland.

In recent years, the malt and grain markets have changed substantially. The new funding structure is designed to give Bairds Malt a platform to continue its growth.

The company currently operates five malting sites across the country and has a total annual production capacity of approximately 200,000 tonnes. Its focus is on the United Kingdom and it has developed long-term supply relationships with major brewers and distillers.

Bairds Malt has two merchanting companies which support the malting division in the direct procurement of malting barley from farms located close to the malting facilities. In addition, these companies have developed strong capability in the procurement and supply of a full range of other products, including organic grain, seed and agricultural inputs.

The Royal Bank of Scotland Group is one of the world's leading financial services companies providing a range of retail and corporate banking, financial markets, consumer finance, insurance, and wealth management services.

Ross McFarlane is Director of UK Sales & Client Relations at RBS Invoice Finance. RBS Invoice Finance is a leading invoice finance provider in Europe with over 8,000 clients. It operates from 25 locations across the United Kingdom and continental Europe and offers a range of invoice finance solutions including full factoring, credit management, confidential or disclosed invoice discounting, bad debt protection and asset-based lending facilities.

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# Beyond the overdraft

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*David Robertson, chief executive of Bibby Financial Services, discusses the merits of invoice finance in funding business growth*

The business of securing adequate levels of finance and ensuring a smooth cash flow is one of the biggest challenges facing small and medium-sized firms today. It is also singularly the most frustrating issue for successful owners and managers, who have the opportunity to sell more but need to find a way of financing the additional staff and materials required in order to deliver.

This problem is further compounded by the current state of the UK economy, which is now well and truly in the grip of an economic downturn. It is against this backdrop that many small and medium-sized businesses are being forced to review their funding arrangements as the credit crunch forces some lenders to take fewer risks. As a result, owners and managers could find it difficult to secure traditional loans or receive overdraft facilities from their bank.

Fortunately, today's business owners and managers have a plethora of alternative choices when it comes to finding the right type of finance for their business and there are ample opportunities to be more imaginative and adventurous in the way that they get their funding. This choice includes venture capital, business angels, grants, the small firms loan guarantee scheme, commercial mortgages, asset-based finance, stock finance and trade finance, to name but a few.

## **The new overdraft?**

One form of finance that has come from nowhere to plug the small business funding gap is invoice finance. The past 10 years have undoubtedly seen a revolution in the

business finance sector, with invoice finance challenging the dominance of other more traditional forms of finance like the bank overdraft or term loan.

According to the latest statistics from the Asset Based Finance Association (ABFA), there are now more than 48,000 businesses using invoice finance as a means to finance their business. With a total of £16bn\* of funds being injected into UK firms and these numbers continuing to grow at a rapid rate, it is hardly surprising that it is fast becoming a mainstream funding option as its reputation increases.

## **Invoice finance – the hard facts**

But what are the hard facts on this much-talked-of business finance phenomenon? How do invoice finance arrangements work, what types of firm would benefit the most from this form of finance and what should owners and managers look for in a provider?

Invoice finance takes on two forms, invoice discounting and factoring.

### ***Invoice discounting***

In general terms, invoice discounting provides a flexible source of finance by funding against a business's unpaid invoices. What this means in practice is that once a business enters into an invoice finance arrangement they receive an upfront payment of up to 85 per cent of the value of outstanding invoices, leading to an immediate cash injection. The remaining 15 per cent less a small fee is paid to the business once payment has been received from the customer. The invoice financier will then provide an ongoing source of working capital by providing funds against invoices as they are raised, helping the business to fund its ongoing growth.

This service can be confidential where the customer is unaware of the invoice financier's involvement.

### ***Factoring***

Factoring is the same as invoice discounting but the customer is aware of the invoice financier's involvement because they undertake a full collection service, which includes sending out statements, making reminder calls and collecting payment.

Businesses can choose whether or not they want to use a recourse or non-recourse factoring facility. With non-recourse factoring, the business benefits from added bad debt protection, which in the current economic climate is becoming a popular option for businesses that cannot afford the burden of a non-payer.

The invoice finance provider assumes responsibility for any unpaid debts within an agreed period, provided they are within a credit limit, and thereafter has no recourse to the client. With recourse factoring, the risk remains with the client – if a customer refuses to pay, they are liable for the amount owing and repayment is financed against

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\* Asset Based Finance Association

that debt. At the very worst, a failure to collect debt could result in the collapse of the business, particularly if the debt is with a major customer.

## When is invoice finance most appropriate?

There are a number of situations where invoice finance may be the most appropriate form of finance:

- new start business;
- established businesses experiencing growth;
- businesses experiencing cash-flow difficulties;
- businesses operating in the seasonal sector;
- management buy-out (MBO) or management buy-in (MBI) where additional financial support is required to continue trading;
- recovery, eg CVAs.

## Invoice finance: the pros

Invoice finance is ideal for fast-growing enterprises, which often lack the capital resources and cash flow to fund expansion plans. Unlike bank loans and overdrafts, which take no account of a company's changing circumstances, invoice finance offers significant flexibility. As sales increase, so does the amount of working capital that the invoice financier can make available – without the need for renegotiation on the part of the business.

The fact that invoice finance releases up to 85 per cent of unpaid invoices within 24 hours is another major advantage of this form of finance. This quick turnaround means that a business in urgent need of finance to pay staff wages, purchase raw materials or meet costly overheads receives an instant cash injection.

Fast and flexible funding, however, are not the only advantages. The professional credit control function that factoring provides can be equally valuable to growing businesses. Many owners and managers inevitably get embroiled in credit control or late payment issues, distracting them from properly managing the business, sourcing new opportunities and building client relationships. By working in partnership with an invoice financier, owners and managers can free up valuable management time that can be spent driving the business forward rather than dealing with debtors. Furthermore, by outsourcing the credit control function, businesses can make considerable savings by reducing some of the overhead costs of an accounts or finance department.

Another way in which invoice finance can play a role in helping small and medium-sized businesses is when it comes to the issue of late payment, especially in light of the global credit crunch which is leading to even more late payment problems.

An estimated £18.6 billion is now owed to Britain's small and medium-sized businesses at any one time.\*\* For this reason, it is important that owners and managers have a solid strategy in place to cope with customers who delay payment.

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\*\* Bacs' annual Business omnibus, January 2008

## Invoice finance: the cons

Some people see the main potential disadvantage of invoice finance as the cost. It is true that with factoring the invoice financier has to allow for the cost of collecting and chasing payments and that in some cases, collecting on the invoice may not be possible. However, compared to bank funding, the cost of money advanced through this type of funding is highly competitive. What is often forgotten in a straight comparison of interest charges is that factoring clients can make enormous related savings on a number of costly overheads such as postage, stationery and telephone calls.

Another worry for some businesses is that using an invoice financier will result in a loss of contact with key customers. However, the client/customer relationship is very important to the invoice financier. A reputable invoice financier will work with the client to find a way to work with their customers to ensure both parties are happy.

On an operational level, the invoice financier works with the client to manage the sales ledger – chasing invoices and taking on the responsibility of collecting payments. A good working relationship with a client's customers is just as important to the factor as it is to their client. The fact that the two have this vested interest means that the invoice financier has to work closely with the client to fully understand the situation, their business and their customers. As a result, companies that use invoice finance may lose some of the personal interaction with customers and it is therefore vital that a business's clients are happy to deal with a third party. It is important to note that invoice discounting is an option in which the business can retain control of the sales ledger but still enjoy the flexible benefits that invoice finance provides.

Some firms are concerned that the establishment of a relationship with an invoice financier will cause alarm among their customers, who might misguidedly interpret this as a sign that they are in financial difficulties. These days, invoice finance is such a popular method of business finance, with firms across a wide range of industry sectors benefiting from it, that the involvement of an invoice financier, particularly a renowned one, will actually increase credibility with customers. This is because businesses that use invoice finance benefit from having the cash to fulfil larger orders, take advantage of early payment and volume discounts from suppliers and thus improve their credit ratings, customer and supplier relationships and credibility.

## Business costs

How much a business pays for an invoice finance solution depends very much on annual turnover, how many invoices are raised, which provider is used and whether the business has opted for a factoring or invoice discounting facility.

There are generally two fees involved with invoice finance. The first is the cost of the finance used, which compares favourably with the cost of a typical bank overdraft. The second is for the service the business receives which, on average, is between 0.5 per cent and 3 per cent of the annual turnover – however, this depends on the industry and the numbers of invoices raised. This cost needs to be compared against the cost of a business's existing credit control team and the savings the business will make.



## Choosing an invoice finance provider – dos and don'ts

The UK invoice finance market is extremely competitive, with in excess of 40 providers vying for business. Here are some pointers that will help businesses choose a suitable invoice finance company to work with:

- Do find out what proportion of your clients the invoice financier will make contact with to chase payment. Some providers will only deal with a small percentage of a business's client base, typically the largest where the financial risks are greatest, while others will chase payments from all debtors.
- Do find out if the invoice finance provider is a member of the Asset Based Finance Association (ABFA). Members of the ABFA agree to operate to a strict code of conduct when dealing with clients. Ask non-members why they are not a member.
- Do find out how the invoice finance provider is funded. They may be part of a larger parent organization, a bank or be completely independent.
- Do investigate whether a partnership with an invoice financier will affect any existing bank funding arrangements you have.
- Don't always choose the invoice finance provider that promises to provide the most money. This is probably the first thing a business wants to find out, but what is more important is how reliable the invoice financier's systems are and how they deal with customers.
- Don't sign on the dotted line until you have checked the contract thoroughly and compared it to other offers.
- Don't be taken in by a large advance figure. Some providers may tempt you by offering to release up to 100 per cent of the value of unpaid invoices, but you need to make sure that you understand any restrictions on funding, which will impact the amount available.
- Don't forget to ask the invoice finance provider how customers will be contacted and which individual will be looking after your business and who will be your main point of contact. The nature of the invoice finance market means that the business will be speaking to their provider on almost a daily basis, therefore it is important that the business owner or manager feels comfortable with their funding partner and that the provider understands the business's needs.

There is no doubt that invoice finance provides a win-win situation for small and medium-sized businesses. For the growing firm, it not only keeps the company's health in check from a cash-flow perspective but also provides essential finance to fund organic growth and frees up valuable management time to allow owners and managers to drive their business forward.

Businesses are able to pay their debts more promptly, resulting in an improved credit position, enabling firms to enjoy potentially more favourable terms and conditions from suppliers as well as improve their future chances of acquiring alternative forms of business finance.

With so many benefits, it is little wonder that invoice finance is rapidly overtaking the more traditional forms of business finance.

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# A new model for invoice finance

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*David Thomson, chief executive of Close Invoice Finance, shows how technology has driven major enhancements to the service customers receive from their invoice financing provider and continues to revolutionize the industry's approach to risk*

Until recently, invoice financing was a highly commoditized marketplace with a largely homogeneous product portfolio. Thus, although typically a business would talk to two or three suppliers, at the point of sale our product would look and feel very similar to those offered by competitors. This meant that deals were principally won or lost on the basis of price and securities required from the borrower.

While this approach might have secured the business in the short term, ultimately providers, including Close, acknowledge that it is only by differentiating – through product and service – that the industry can hope to flourish in the long term. So, the industry has committed to delivering a more customer-focused service for SME clients, with technology emerging as the key to change: providing end users with faster access to their funding and giving factoring companies an edge over their competition. The benefits have been significant.

## Immediate benefits of the e-factoring revolution

- Lower administrative burden: Invoice finance, where providers enable businesses to raise finance by capitalizing on their sales ledgers, without the need for expen-

sive banking arrangements, represents a flexible way to help companies finance their business, manage cash flow and fund expansion plans. But, traditionally, invoice finance clients had to complete hefty levels of paperwork just to set up accounts and could only draw down funding once the factor had inputted hard copies of client invoices onto their computer systems.

Luckily, e-factoring has removed the need for much of this paperwork as, to varying degrees, providers have migrated to web-based technologies. In practical terms, this means that today's clients can expect to have interactive access to their accounts – enabling them, for example, to upload invoice files and download actual funding availability direct from their computer screen – a huge time saving for both client and provider. Technology has also led to an improvement in transaction times. So, whereas historically client facilities would move on a daily basis, they can now be completed and included in funding calculations on a real-time basis.

- Improved client access and control: In addition, by encouraging greater interaction, today's online invoice financing systems also give end users a much more sophisticated grasp of the mechanics of the facility. Greater visibility of transactions has removed the myth of invoice finance being overly complicated to operate. This is particularly beneficial for factoring clients who are now able to track correspondence between the invoice financier – as they go about credit control on behalf of the client – and the clients' customers, allaying much of the fear around a third party becoming involved in these relationships. Removing the fear of 'losing control' is one of the biggest benefits technology has provided invoice finance clients.

From the provider's perspective, a more educated consumer makes us more accountable to our clients – no bad thing if we are genuinely to respond to customer demand. It's certainly had a huge impact on how we market ourselves, with practical 'demos' a feature on most provider websites – so businesses know exactly what they're getting before they buy.

- Major cost cutting impact: The other key industry-wide benefit for all SMEs is one of cost efficiency. Invoice finance has always been a cost-effective financing option as, unlike traditional bank funding, it does not increase debt provision. Technological advancements have facilitated a cut in service charge – by doing away with the need for postal and admin functions – making it even better value for money. Taking our experience as a benchmark, the price to clients has reduced by on average 30 to 40 per cent over the past 3 to 5 years – a significant saving by anyone's reckoning.

## Revising the rule book on risk

But perhaps where technology potentially has most to offer invoice finance end users in the long term is in adjusting the way the industry perceives risk. Developing an accurate risk profile is – and always will be – essential practice for any invoice finance provider, especially when clients are looking to opt for confidential invoice discounting rather than factoring. Unfortunately, this necessary safeguard can lead potential

clients who fail to make the grade for invoice discounting to turn away from invoice finance entirely. This isn't good news for providers or our customers, so what leeway is there for us to adjust the rule book on risk?

- Improved data trending, analysis and risk reporting: This was the key challenge facing the industry when I took the helm of Close Invoice Finance back in 2003. Since then, providers have installed a variety of risk systems, based on sophisticated modelling techniques, to allow improved monitoring of client exposures – and pass on the benefits to their clients.

Today's factors are, for example, able to create accurate models charting client behaviour and then track against these assumptions. Meanwhile, increasingly sophisticated software can serve as an early warning service for many providers by supplying a rolling model of current client risk behaviour and flagging any short-term deviations. All of which has made us much more aware of what constitutes a 'high risk' client.

- IDEal™ gives invoice discounting mass market appeal: However, according to our own independent market research, a sizable number of businesses had a preference for invoice discounting but – because of the risk profile they presented – could only access funding through factoring. None of the risk systems adequately addressed this need to broaden the market for ID, so we set about tackling the issue head on.

The problem is one of security: factoring requires the financier to complete credit control on the clients behalf – essentially talk to the debtor about the validity of an invoice and its likelihood to get paid – while invoice discounting clients maintain full control over the credit process and, consequently, providers' lack of access to the sales ledger forces them to take a stringent approach to risk.

So, we reasoned that the way to open up the market for invoice discounting was to provide clients with an ID product where the financier still had a level of access to invoicing security on a par with factoring. Having secured investment in excess of £2 million, we briefed software experts to come up with a 'best of breed' product which could do just that.

- An end to monthly reconciliations: They didn't disappoint. The IDEal™ software is simple; it interfaces with most accounting packages to provide up-to-the-minute funding information direct from the sales ledger on a day-to-day basis. Once signed up, clients can access up to 95 per cent of the value of their invoices at the click of a mouse. With the real-time, 'rolling' reconciliation replacing the time-consuming 'month end' version, assuming that reconciliation is satisfactory, IDEal™ typically releases up to 15 per cent more funding than traditional solutions.
- Improved access: As a consequence, we are now able to offer invoice discounting into relationships where previously we would have relied on a factoring product. The system is available for any business which uses an accounting software package and has UK sales of at least £500,000 per year.
- Moving to make audits a thing of the past: We are eager to see how we can use this technology to bring about further changes to the way we assess risk.

Currently, for example, we are cautiously beginning to consider reducing the level of client site audits/visits we undertake. Ultimately, we could develop a remote audit solution yielding cost savings for us, while cutting back on unnecessary intrusion for the client.

## Conclusion

In a quest to deliver more customer-focused services, technological advances have already fundamentally changed the invoice financing model, making factoring and invoice discounting less labour intensive and more accessible and cost effective than ever before.

Now, the advent of sophisticated software modelling has paved the way for ‘best of breed’ products to alter the very way the industry perceives risk, making it easier for SMEs to get exactly the invoice finance service they want.

This is just the beginning: with the industry increasingly aware that they can’t afford to stand still, customers can look forward to a progressive and innovative approach to invoice finance in the coming years.

David Thomson is chief executive of leading independent invoice finance provider Close Invoice Finance (Close). Since taking the helm at Close in 2002, he has overseen the company’s growth by more than 45 per cent by repositioning the business as a product and service leader within the factoring and invoice discounting sector. As full executive director and minority shareholder, he has responsibility for the leadership, management and strategic development of the business, which employs more than 160 staff.

Tel: 01273 321177

E-mail: [dthomson@closeinvoice.co.uk](mailto:dthomson@closeinvoice.co.uk)

[www.closeinvoice.co.uk](http://www.closeinvoice.co.uk)

# Payroll finance

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*Leverage your wage bills to release cash flow, suggests Paul Breen, founder of Wageroller*

With the UK service industry dominance continuing apace, payroll commitments have become an ever more significant operating cost for most businesses. It is not unusual for the payroll to exceed all other costs put together. The dual problems of escalating payroll costs and perceived credit tightening have meant that payroll finance is now increasingly being seen as a reliable addition to traditional ways of financing business growth.

## The facility

Innovative in structure, the payroll finance facility can settle a company's wage bill and HMRC commitments for up to two months, allowing the client company to release their biggest cost overhead for use by the business.

The service, designed to complement overdrafts, is seamless and discreet. Once approved, the client company simply carries on processing its payroll as usual and uses its payroll finance facility instead of its usual bank facility to make the payments directly to its staff and to HM Revenue & Customs.

Payroll finance typically requires no security against personal or business assets and the facilities are cost free when not in use. It is also a more cost-effective and secure alternative to other forms of financing such as factoring and invoice discounting, where money is borrowed against invoices that have been issued but not yet collected.



The payroll finance facility provides typically unsecured funding geared to the company payroll, not its sales ledger or other assets. This rolling form of finance is available to creditworthy businesses of any sector with two or more years trading history.

These facilities work alongside most forms of asset-based finance without affecting existing security arrangements; they especially complement bank overdrafts. The service is also completely invisible to employees, clients, suppliers and competitors, and appears as a normal trade creditor on the company balance sheet.

The facility is self-managed online in a similar manner to an online overdraft facility, which can be used to settle payroll commitments in a single transaction directly to employees and HMRC, and it will give the company 56 days before repayment is due after each transaction. Early repayment is penalty free and there are no charges when funds are left unused.

Facilities are typically offered at the equivalent of two times the business's monthly payroll. As an example, if the company's gross payroll is £250,000 per month, Wageroller® can offer a facility of up to £500,000. These facilities provide full utilization (100 per cent) of the agreed limit for use ad hoc or on a rolling basis.

Setting up a facility is subject to a one-off fee based on a percentage of the facility limit. Facility usage charges are invoiced separately on a monthly basis and are calculated on the average outstanding monthly balance only (not on whole of turnover or the full facility limit).

Charges in summary:

1. Set-up fee 3–3.5 per cent of the facility limit (one-off charge).
2. Service charge 3–3.45 per cent, calculated daily (in the same way as a mortgage), paid monthly.
3. Administration charge 1–1.5 per cent, calculated on the average monthly outstanding balance.

#### The 8 main advantages of payroll finance

- Finance geared to payroll commitments, not sales ledgers or other assets.
- Fifty-six-day revolving credit line that can be utilized ad hoc or on a rolling basis.
- Typically unsecured finance – accessible to businesses within any sector.
- Highly complementary to bank overdrafts and most other asset-based borrowing.
- Confidential and leaves existing security arrangements unaffected.
- Facility limits of up to two months payroll commitment.
- Charges calculated on average monthly funds in use only.
- Penalty-free early repayment, fee free when left unused.

## Who uses it?

Payroll finance works for established businesses from any business sector that are two or more years old, ranging from SMEs to PLCs. Businesses that already utilize the service fall into three main categories:

- **Seasonal:** All seasonal businesses have peak cash-flow needs during high-activity periods. Payroll finance provides increased funding in line with needs, reducing cash-flow constraints, and can enable further seasonal contracts to be resourced.
- **Growing:** Most growing businesses suffer from temporary negative cash flow as their size increases. Payroll finance increases in line with the natural growth of increased trade as well as human resource.
- **Financial experts:** Cash-rich businesses understand how to utilize resources to achieve maximum returns on capital employed. Payroll finance can help fund special exercises such as M+A activity, MBO/MBI initiatives or other specialist financial planning exercises without disrupting equity or existing funding arrangements.

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# **Business technology and systems**

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And to make things even more difficult, we are constantly hit by conflicting views as we listen to governments, regulators, evangelists, sceptics, the media,

shareholders, customers and even our own employees. Add the jargon into the mix - carbon footprint, greenhouse gases, carbon offsetting, sustainability, etc - and even the smartest business leader could be forgiven for getting confused.

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# Technology risks

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*Technology is driving a switch to collaborative working in networks, says Jon Collins at Freeform Dynamics, although there are risks involved*

What an exciting period of technology we are in. Following the millennium bug debacle and the dot-com bust, it almost seemed that the technology wave was slowing down, leading some pundits to suggest that IT was becoming a pure commodity, adding little business value. From this standing start, IT has become exciting again: as we discuss below, there are a number of developments that are significantly impacting organizations large and small. However, technology is a sword that can cut both ways. The purpose of this chapter is to consider what impact new technologies are having on our business lives, and what we might do to address the inherent risks.

To start with, we need to revisit what we mean by risk. There are many types of risk, and while IT may have some specific risks of its own (technical risks associated with incompatible or poorly patched software, for example), these often translate into risks that are directly felt by the business, such as:

- financial risk – where business is lost, or unnecessary costs are incurred as business users are unable to get on with the job;
- compliance risk – where the organization becomes liable with respect to regulation or corporate standards;
- reputational and brand risk – where an organization faces bad press, with potential loss of business as a result.

The risk landscape is more of a jungle than a green field, however. Several examples of high-impact failures have not had the effect that might have been expected – while

the Wifi blunder that caused the leak (or to be frank, the outright flood – 45 million records were taken) of credit card data from TK-Maxx may have resulted in \$128 million of losses to the company, but the retail organization has not seen any significant impact on its trade. Meanwhile, the lessons from the HMRC incident where two CDs of child benefit records (25 million of them) are still to be learnt – to quote UK Information Commissioner Richard Thomas in April 2008, ‘It is particularly disappointing that the HMRC breach has not prevented other unacceptable security breaches from occurring.’

It is worth mentioning both of these examples to illustrate that the discipline known as ‘risk management’ is far more complex than that simple term might imply. Such complexities include understanding what exactly is meant by risk, where the real likelihood of business damage is to be felt, and perhaps most importantly, the fact that no organization, large or small, is operating in isolation from what is a much larger, rather shaky ecosystem. It is against this background that the smaller business needs to decide its strategy for how it uses IT.

Despite the somewhat gloomy picture painted by examples such as these, there are still a great many potential benefits to be had from how technology is evolving. Right now, a number of trends are driving considerable change across many businesses, such as:

- Broadband mobile technologies such as 3G wireless are becoming more affordable and therefore prevalent; these are running alongside higher-bandwidth fixed broadband to homes and offices, and enabling a wider variety of home-working and remote-working practices.
- The internet is increasingly becoming a platform for collaboration, with consumer-oriented social networking sites such as Facebook and MySpace sitting alongside more business-oriented sites like LinkedIn and Ecademy.
- We are also seeing a resurgence in web-based applications and online hosting facilities, driven by such organizations as Google, Microsoft and Amazon.

Behind all of this, no doubt catalysed by such advances but equally driving them, is a more demographic change across business, towards increased collaboration and openness. In general terms, we are seeing organizations of all sizes increasingly looking to move away from the traditional employer–employee hierarchical model towards more of a network-based approach where organizations collaborate on the creation and delivery of business services.

In retail this may be a more familiar story, where business-to-business (B2B) and supply chain activities are seeing more of an evolution than a revolution. In other sectors, such as the research side of pharmaceuticals, the collaborative approach is far newer. While smaller organizations are more likely to be brought into a collaboration rather than acting as the hub, there are still a number of new business opportunities to be had, aided and abetted by the use of IT. New opportunity yields new risks, not least because existing systems and processes were unlikely to have been designed with the future in mind.

Keeping up with technology change, and integrating the new with the old, is a massive challenge across the organizations we research. At a recent security event in

London, a number of chief information security officers (CISOs) from different verticals expressed that one of the biggest problems they faced was how the new risks caused by new applications and infrastructure now had to be treated in the context of increased business collaboration.

We therefore need to consider risk both in terms of the changes we are driving and the changes in which we are mere participants. In smaller organizations, the challenge is further exacerbated by the fact that there are less likely to be the skills or the bandwidth in-house. So, what to do? Given that there are no easy answers, how should such businesses put their best foot forward and reap the rewards of the business opportunities while still addressing the risks, so they don't come unstuck in the process? From our research and conversations with a wide variety of organizations we have distilled a number of guidelines, as follows:

- **Make IT work anywhere.** There are two technology-related consequences of the open, collaborative world we are moving towards. One is that much activity is taking place outside the organization's IT boundary, and a two-tier system which treats connected devices and applications differently depending on which side of the firewall they sit is becoming increasingly untenable. The second concerns the 'who' rather than the 'what' – business partners, subcontractors, consultants and so on are requiring access to corporate systems and data. This may bring up a number of questions around data protection, vetting and so on, but it is better to treat these up front, than sleepwalk into later problems.
- **Manage access by identity.** The increased fragmentation of the corporate boundary makes it necessary to implement other control mechanisms than just 'he's inside the building, so he must be OK'. Increasing attention is turning towards the management of individual identities, and provisioning access and facilities based on role. This does not translate into buying an identity management system, as, realistically, this is one area where technology is lagging behind the need. A good start, however, is to start documenting who has access to which systems and data, whether they are employees or partners. If you find this a challenge, then you may already be at risk.
- **Classify information by risk.** The traditional approach to risk management involves gaining an understanding of risks, then treating them accordingly. Given what we have already seen, however, this is akin to mapping the jungle: it is still important but it can only be one part of what is done. At the same time, activities around reviewing what information exists, how important it is to the organization and how well it is protected provide a different viewpoint which enables the subset of high-risk information to be treated as a priority. Some organizations are adopting a traffic-light system as a starting point: what information do you have that would cause the business to fail if it were compromised?
- **Bring in the experts.** The brave new world of online collaboration can also be applied to how we understand and reduce risk. It will always be necessary to run and maintain some security capabilities in-house, for example, but it can equally make sense to look to how security can be delivered 'in the cloud'. Equally, there is no honour in ignoring security risks, nor shame in bring in third parties who



have a better grasp of how IT is moving forward. From our research we understand that the key to successful use of third-party services is in the decision-making process: adopting a business perspective enables more light to be shed on what skills add significant business value and should be kept in-house, compared to what should be sourced from third parties – the same applies to risk management.

- More best practice, less policy. While policy is important, it often focuses on the ‘what’ rather than the ‘how’. Best practice is more about the latter – and in this context, we’re thinking about how risk management best practice applies to all aspects of IT management and delivery. This often boils down to review checklists – has a given application been security tested before it is deployed, for example, or has the code been peer reviewed? Has the consultant who has been brought in for a day been cleared to access the information he or she requires? It is all too easy for what are often very simple checks to be forgotten; far simpler is to ensure that the default behaviour involves running through the appropriate checklist.

Guidelines such as these are not exhaustive, but they offer a good starting point for thinking about some of the challenges. At the same time, they should not distract from one of the key principles of risk management: that is, to be vigilant. An uncomfortable truth about IT-related risk is that whatever new innovations the technology world may come up with, each will in some way be exploitable by a spectrum of ‘bad guys’ – there are the relatively innocuous practices of building a picture of a prospective client by browsing around the internet, and at the other end of the scale, seasoned hackers are using leading-edge technologies to launch focused attacks on high-profile individuals. Perhaps this yields the biggest lesson of them all: that, even if it ever was, doing nothing and hoping the risks will go away is simply no longer an option.

Jon Collins is service director with Freeform Dynamics, a UK-based IT industry research and analysis firm. Freeform Dynamics specializes in community research, helping organizations benefit from the knowledge and experience of their peers in the procurement, deployment and operation of IT.

Further details:

Tel: 07799 671371

# Building the network

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*How do you grow and keep your workforce communicating and working together effectively and securely? Nick Callaghan at Opal reports*

Technology has rapidly developed to help employees to collaborate whether in a single office, between offices or when working from home or away from the office. The flexibility this provides allows companies to fully utilize their key asset: their employees. I will be focusing on the ability to achieve this as well as keeping another key asset, your business data, secure.

## Choosing the right supplier

As you look to expand your business with remote workers and new sites it is important that you choose a company to partner with that can provide scalable and flexible IT and internet communications – flexible in that the solution is easy to change and allows you to add employees and sites quickly and securely.

Price as always is at the fore for businesses, but can be a false economy if something goes wrong. In a survey of SMEs there were two overriding factors before price: 1) resilience and reliability; 2) account management and support. This is because businesses rely on their IT communications to function. The solution needs to be both resilient and robust so that it rarely fails, or has a back-up connection or facility available to allow the business to continue. Then even if things were to fail, businesses want to work with a company that delivers what it promises and is there to support them if things go wrong.

Normally it is a simple choice: the more you can afford the more you mitigate your risks, from a break in the communications link to ensuring your data is

secure. The key is to quantify your risks. How much would it cost the business if you were out of action for a day or a month, or longer, or if all the IT data was compromised?

## Options

### *Access and wide area networks*

A component of linking your sites together will be access to the internet. The use of the internet has become a necessity and has created businesses in its own right. However, this has to be balanced with security and appropriate employee use of the internet.

An issue that smaller companies are often unaware of is the legal obligation to protect employees from obscene material, as well as ensuring that IT infrastructure and data storage are used for your business and not private use.

There are a number of solutions available for a single-site operation, such as IT access via ADSL, SDSL and leased lines, which typically allow your growing business to access the internet while housing your own PCs and IT applications in your first office.

As businesses grow they require multiple offices and remote workers to update a single centralized database or IT application. To allow secure access to this data, networks and encrypted solutions allow smaller companies to manage security and use the internet.

### *Hosting*

A growing trend and option for companies is to house their IT applications and servers in a hosted environment. A hosted environment is where you use a company to house your servers and applications in a controlled and secure environment. But this also gives other benefits as you expand.

The hosted environment typically will have access to robust power supplies, controlled environments and higher-speed communication links, providing better value and higher availability. Rather than buying large bandwidths for your office, you can house your applications and servers in a hosting location. Not only is this more flexible for growth, but it allows you to buy the bandwidth you need for each location to access this information rather than over-purchasing bandwidth at your head office.

### *Managed applications and security*

Some companies can now provide the facilities to protect all your employees from spam and viruses as your employees use the internet for their work. With the addition of web-browsing software you are able to control employee access by time of day and the appropriateness of the website. By using the IP addresses of the company laptops and PCs and devices, these applications can provide protection even away from

the office environment and can be easily managed and administered through a web interface. This results in no hardware and software to buy and manage, just a fee per employee.

### ***Handling voice and data communications***

In addition to mobiles and landlines, wide area IT networks have now been developed to carry voice as well as data between employees. Using this technology and others can provide a competitive edge for businesses in a key differentiating area: *customer service*. Calls can be distributed to the right employee, no matter where they are based, together with the correct customer data, which can also be looked up as the call is ringing.

## **Summary**

We started by considering the need for employees to work together effectively and to secure your business-critical data from loss or attack.

By choosing the right supplier that looks at your future requirements you can solve the needs described.

By working more closely with your chosen partner you can deliver a competitive advantage in key areas. The key choice, as ever, is not the technology but how your partner and you utilize the skill set available outside your company.

With partnership you can make the right choices to allow you to expand your business and retain agility and the competitive advantages such as customer service.

Nick Callaghan is managing director of the managed solutions business of Opal. Opal is the B2B division of The Carphone Warehouse. Nick has been managing business IT communications companies since 2000, both in the United Kingdom and overseas. He has grown businesses to £50m turnover, maximizing shareholder value through implementing acquisition, turnaround and exit strategies. Nick is a MIOD and has achieved a Diploma in Company Direction as part of the Charter Director programme.

Opal focuses on business communications for the mid and corporate market sectors. It has been operating in the managed networking market since the early 1990s and focuses on designing solutions that recognize the business criticality of a customer's data. As well as design, Opal is recognized for customer satisfaction, utilizing UK-based engineers to assist its customers manage their way through the complexity of data networking. Opal also has its own hosting facilities and offers critical security solutions. Major customer satisfaction awards from Cisco and industry-leading customer satisfaction results from its customers are some of Opal's most recent achievements.

Further details: Opal Business Solutions Limited, 6 Cliveden Office  
Village, Lancaster Road, High Wycombe HP12 3YZ

Tel: 01494 513333

Mob: 07766 867699

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# Enterprise communications

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*Andrew Levey at Toshiba reports on how to use telecoms technology to grow your business*

In recent years, telephony has undergone its biggest evolution since Alexander Graham Bell constructed the first prototype telephone in 1875. The development of the World Wide Web has made Internet Protocol (IP) a familiar term and many organizations are now making use of Voice over IP (VoIP) within their company. The advent of Session Initiation Protocol (SIP) technology has also meant that more and more devices can be used as an extension of the core telephone system, bringing tangible benefits to many organizations.

So how do you know what's right for your organization? In this chapter, we give you a brief introduction to different telephony solutions available to you, and how they can help you increase efficiency, improve customer satisfaction and grow your business.

## **Voice over Internet Protocol (VoIP)**

VoIP (also known as IP telephony) allows voice to 'ride for free' across a single, converged network which requires only one set of cabling. VoIP can offer flexibility to organizations, removing restrictions of where your employees work and easing the addition of new lines or extensions. It can also reduce operating costs, and make it quick and easy to integrate new or temporary offices.

It is important to acknowledge, however, that an IP solution is not appropriate for every business. Some organizations will find greater benefits in a hybrid, or even purely digital telephone system.

### ***Digital systems***

Because of the maturity of the technology, time-division multiplexing (TDM) systems that are based on circuit-switched technology often require less capital investment than IP. Calls are made over the public switched telephone network (PSTN), which means that TDM systems are most suited to single-site companies with office-based staff where cost savings through eliminating call charges between offices and remote/home workers aren't applicable. TDM systems do, however, benefit from a guaranteed quality of service (QoS) due to using a separate internal voice network.

### ***Hybrid-IP systems***

As the term suggests, these systems combine both TDM and IP technology in one solution. Hybrid systems can often be a stepping stone towards deploying Pure-IP, delivering only where initially required. Using a separate voice network at the head office and IP end-points to connect remote workers and branch offices combines the benefits of eliminating call charges between sites, while delivering guaranteed QoS at head office.

### ***Pure-IP systems***

As you might expect, Pure-IP systems utilize only an IP-enabled network and push IP end-points out to all employees. Pure-IP systems that feature peer-to-peer technology ensure the best possible quality of service for IP telephone systems, and also ensure efficient use of bandwidth between branch offices as voice packets travel directly between end-points rather than back through the switch in the head office.

Some Pure-IP systems also feature an entirely software-based system, with the user's PC/laptop being used to manage the call for the user. Software-based systems can present a very attractive price-point due to the fact that they are software-only, but this can also raise questions around reliability and the installation of security/enhancement patches from organizations such as Microsoft.

Previously, businesses had to choose between the types of solutions and replace them entirely if they wanted to migrate from one to another. Today, however, some vendors provide an 'all in one' system that can be installed as a TDM, Hybrid-IP or Pure-IP solution and seamlessly and cost-effectively reconfigured as required, without needing to completely replace the system. This means businesses can invest in one platform which will support their changing communications requirements, enabling them to migrate as and when it suits them and protect their initial investment.



## **Messaging solutions**

While voicemail might seem like quite a basic requirement these days, messaging solutions can offer a range of additional benefits to your organization. For example, automated attendant (AA) can allow customers to route their own calls through to the department they need, and audiotext can provide information out of hours, such as opening hours or directions. Further features such as one-touch call recording, call screening or automatic scheduling, can also help employees focus on important work when needed, and avoid letting customers hear annoying busy tones or endless ringing. Finally, unified messaging allows users to retrieve voicemails, e-mails and faxes from one central location, improving productivity.

## **Contact centre solutions**

Contact centre technology helps organizations manage the call volumes coming into the organization, and also to aid the agent to deal with the call as quickly as possible to maximize customer satisfaction. However, some of this technology can also be used by organizations that have a more informal call centre, such as a sales hotline or a technical support line.

### ***Call routing***

A number of options exist to help customers calling into the organization. Uniform call distribution (UCD) or advanced call distribution (ACD) helps ensure that customer calls are answered quickly, and the query answered with minimal transfer or time spent on hold. Going even further, technology such as interactive voice response (IVR) can help customers retrieve information such as account information or delivery times, without even needing to speak to an agent.

### ***Computer telephony integration (CTI)***

CTI allows you to link your back-office computer systems to your telephony network, allowing the system to automatically fetch records from a database or customer relationship management (CRM) system before a call is connected, providing all the information on the caller to the agent. CTI applications can also allow presence management to see who is available to assist on calls, and even 'whiteboard'-type collaboration tools, allowing sharing of documents while discussing a call.

### ***Call recording***

Organizations today require the ability to record calls for a variety of reasons. From security and transactional analysis, through to quality assurance, staff training and performance monitoring, call-recording solutions can help highlight areas of improvement in a variety of departments.

## ***Management information system (MIS) reporting***

MIS reporting tools allow organizations to retrieve real-time information on the performance of the contact centre. From visible indications of the number of calls answered, abandoned or waiting, to in-depth analysis of call volumes and the reasons for instances of bad performance, MIS reporting provides valuable information for training and continuous improvement.

## **Remote and mobile working**

New technology, such as the integration of SIP devices, soft phones and mobile phones to the core telephone switch, allow employees to achieve real-time interaction with customers, business partners and colleagues, regardless of their location.

Employees can work from home and access all of the core functionality that they have in the office, either using a physical IP phone at home, or a soft phone on a PC or laptop. This allows them to provide the same level of service to customers, increases staff retention and helps reduce an organization's overall carbon footprint. What's more, calls can be routed to home workers outside of office hours to avoid the additional overheads of keeping the office open, increasing customer satisfaction at minimal cost.

Mobility has varying levels of meaning, the most common being the ability to access e-mail on the move, or the ability to take a handset (such as a SIP handset) with you as you move around the building. However, true mobility is far more than that, providing employees with access to the full range of office tools on a single device while out of the office, from access to applications, documents and e-mail, through to integration with the core office telephone system. Mobile workers can also have their Windows Mobile® devices integrated into the core system to provide a single device for receiving calls, and the ability to use the mobile phone to call out through the switch to make use of least cost routing (LCR).

## **Networked solutions**

Many organizations today operate across a number of sites. The ability to network these offices together allows centralization of key applications such as operator positions, door lock control or call logging, and provides functionality such as account codes, call forward/transfer, caller line identification (CLI), recall and LCR across the distributed network. This allows you to reduce operating costs and, more importantly, ensure that your customers receive the best service across the organization.

Telephony solutions today offer a whole host of solutions to organizations to improve the productivity of their workforce and provide the best service to their customers. In the majority of cases, telecoms vendors provide solutions that allow you to pick and choose the right technology for your organization (ie IP, digital or hybrid) today, and have easy options to amend or add to the solution as your company grows and the needs of your staff and customers change.

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# Videoconferencing – enabling you to grow your business

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*The time has come for small and medium businesses to re-evaluate videoconferencing and understand how it can grow your business, says Keith Gyford at First Connections Ltd*

The past 12 months have seen vast developments in the videoconferencing world. High-definition (HD) and MP3-quality audio are available as standard and competitive pricing has led to an even quicker return on investment (ROI).

Market dynamics mean that small and medium-sized businesses are ideally suited to adopt videoconferencing and take advantage of the technologies available to help grow their business. You can now hold face-to-face meetings with business colleagues from many locations. You can reduce time to market and speed up decision making and actively contribute to your bottom line.

## **So, what is videoconferencing?**

Videoconferencing (VC) allows you to perform natural, face-to-face communication. There is no other technological substitute for this. There is no e-mail, phone or other

distraction to get in the way of the meeting, leaving you free to solve problems, allocate tasks and make decisions. You can also share presentations and data on screen, seamlessly, as though you are all in the meeting together.

The VC system collects the audio, video and presentation information and transmits it to one or more remote systems over standard network connections, not just between two sites, but between multiple sites by having multipoint or 'bridged' conferences.

## Why use videoconferencing?

There is no substitute for natural communication and VC allows this. It is as good as being in the room together. Arguably better, as with it comes the plus point of reduced travel (and therefore reducing your carbon footprint), reduced costs on petrol allowances and quicker resolutions of business issues.

## Why is now the time to implement videoconferencing?

The market for VC is growing at its fastest rate ever since inception. The internet revolution has made connectivity more practical. Traditionally, we used the ISDN network to make calls (meaning lots of phone lines and rental costs) and bundled together many lines to make calls. The costs were high, as was the likelihood of problems.

Today, we have broadband internet services that are fast, reliable and always on, with no call costs. Forget six bundled lines, today's broadband services are 2, 4 and 20 Mbps speeds, enabling us to do high-quality videoconferencing at a fraction of the network cost, coupled with greater reliability.

### *Some of the benefits*

Traditionally, the benefits of using VC fall into two cost-saving categories – hard and soft costs – examples of which are given below:

- hard costs:
  - travel costs: road, rail, air;
  - associated travel costs: hotels, subsistence;
  - time lost while travelling: time in trains, planes and automobiles;
  - ecological savings: there are carbon calculators that translate to hard savings;
- softer costs:
  - productivity: individuals' productivity over travel time;
  - improved management: faster to respond and act;
  - flexibility: the ability to move from just schedule to more ad-hoc meetings;
  - effectiveness: we can have phone conferences but attention span can be an issue;
  - reduce stress: reduce stress and even ill health from overstretching ourselves and employees;

- green issues: not just carbon emissions but reducing congestion, waste etc;
- business re-engineering: to deliver new ways of doing business.

The softer costs are the exciting costs. This is where we move away from cost reduction and move into wealth creation.

## The business drivers

There are numerous drivers for the adoption of a VC solution; the following are just a few of all of those we have encountered:

- We are only as good as our people: how do we get a key person in two places at one time?
- Differentiating YOUR company: using VC wisely can give you an advantage.
- Access to skills: remote expert, delivering skills and training.
- Globalization: even if not global, how do we extend our reach, and if we don't, will they?
- New markets: how do we put a toe in the water? Often VC offers a low-cost option.
- Customer loyalty: being able to advise and be involved with our clients daily.
- Remote working: staff in remote or partner locations still need management and support.
- Home working: with the right tools staff can work more effectively and flexibly at home.
- Industry-specific drivers:
  - Time to market/supply chain management: are big motivators for VC.
  - Education, government and healthcare have for many years been key users of VC.
  - Finance: legislature issues – VC enables qualified staff to deliver finance options to more clients.
  - Legal: legislature issues – VC gets qualified information to the end recipient.
  - SME: opens a US office – VC reduces travel, maintains client face to face plus US staff education.

## Return on investment – the facts

To truly benefit from VC you need to implement a VC strategy. If you just invest in some nice, state-of-the-art equipment then there is no value to you or your company. Investing in VC without a business plan results in equipment sitting redundant in meeting rooms and cupboards.

You can only really show a true return by integrating VC into your business plan. Below are just some of the questions to consider:

- What are we deploying a VC service to achieve?
- What is the commitment from the management team?
  - The project needs to be sponsored high up in the organization.
  - The commitment needs to be engendered down through the organization.

- How will adoption be encouraged?
  - By stick: reduced travel budgets, needing sign-off for certain travel.
  - By carrot: rewards, may be by a user group or even ‘chair miles’.
- What is the project plan?
- How will the success be measured?
  - Measurement is critical in showing the value of the investment.
- What education, training, documentation and processes will be available to make the project work?
- What milestones are in place?
- Do we fully understand the costs involved?
  - Cost of equipment – capital or financed you need a clear budget.
  - Equipment costs – hardware, network, installation, support, services.
  - People costs – internal manpower to run and support the service.
  - Ongoing costs – network, maintenance, support.

### ***Calculating your own ROI***

This is actually the easy part! If you look at the manufacturers’ sites ([www.tandberg.com](http://www.tandberg.com), [www.polycom.com](http://www.polycom.com), etc) you will find various ROI calculators that will give you a good basis for ensuring you have covered the basic savings.

### ***Typical ROI periods are measured in a few months***

The shortest I have seen was the payback period on the first videoconference. Our calculator is at [www.firstconnections.co.uk/roi](http://www.firstconnections.co.uk/roi) and is a simple spreadsheet for you to populate.

## **What solution is best for you?**

### ***Group videoconferencing systems***

These are the most common videoconferencing solutions installed. These systems are designed to cover a table or room with multiple participants.

### ***Personal videoconferencing systems***

Desktop or PC videoconferencing is very popular; however, you must ensure that it is standards compliant and will integrate with any other systems you plan to deploy.

Personal systems are integrated into a single unit that provides all the functionality for VC and gives a very easy to use and deploy solution. These types of systems vary hugely from a videophone through to executive solutions.



Keith Gyford of First Connections Ltd has a long history in the telecommunications and videoconferencing industries. Having spent his initial working career in BT and then IBM, in 1995 Keith formed First Connections as an independent resale company focused on the videoconferencing industry.

Tel: 01256 301700

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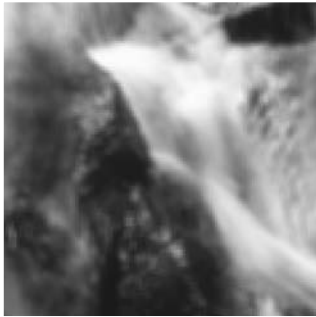
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# Global sourcing

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*You can cut your costs in a world where everything is connected, but market conditions can change rapidly, so be ready to switch from one supplier to another. Emma Clarke reports on a study by the Chartered Institute of Purchasing and Supply*

## Where it all began?

The world did not proclaim the dawn of globalization the moment McDonald's opened its doors in Beijing, or when Vietnamese factories reeled off their first Nike trainers. The term entered popular consciousness in the 1980s, but people, their economies, religions and cultures were interacting long before that.

Neither is globalization a novel concept for today's professional. The benefits of low-cost country sourcing are well known to buyers who have outsourced back-office functions or manufacturing to the Far East.

While the concept may not be new, in today's corporate climate it is having a changing effect on business. Some argue that globalization is changing the fundamental concept of the modern business.

This is because the world's economies and societies have never been so interdependent. Barriers that once prevented the flow of work, capital and information are falling away with the arrival of the internet and reduction of trade barriers. There is now plentiful and cheap mobile capital and easier access to a burgeoning global workforce.

## Global economies make global businesses

A number of factors, over recent decades, have accelerated the move towards globalization.

In 2003, Goldman Sachs predicted in its influential report, *Dreaming with BRICs: The path to 2050*, that Brazil, Russia, India and China (or the BRIC economies as they have since become known) would together eclipse the riches of the G6 within 40 years. Working together, China and India would become dominant global suppliers of manufactured goods and services, and Brazil and Russia the suppliers of raw materials.

If businesses in the new shrinking part of the world economy were to compete, they needed to rethink how they worked on a global scale.

IBM is one company that has adapted to meet the forces of globalization. Speaking at the INSEAD Business School in October 2006, CEO Samuel Palmisano illustrated the impact that the internet, free trade, a global labour force and a shift to a service-based economy has had on business. For the first time in human history, he said, 'everything is connected'.

At this 'historic inflection point', he argued that a new model for the multinational business was emerging.

## Globalization and the emerging markets

Procurement professionals that continue to see China and India as the 'globe' in 'globalization' risk cutting themselves off from opportunities elsewhere.

Last year, Professor Richard Lamming, director of the School of Management at the University of Southampton and one of CIPS 'Foundation' professors, urged purchasers to remember that low-cost country sources only remain competitive for two years.

Once a country has enjoyed the initial influx of foreign investment, a local boom ensues. This forces wages to increase and employee attrition rates to decline. Bearing this in mind, procurement professionals need to be ready to switch between countries readily.

The vast majority of respondents to the EIU and Atradius report, *Succeeding in Second-tier Emerging Markets* (November 2006), said that they had made investments in second-tier emerging markets. These include Vietnam and Indonesia in South East Asia; Poland and Romania in Eastern Europe; Mexico and Venezuela in Latin America; and South Africa and Nigeria in Africa.

The Asia Pacific region, where they saw opportunities for low-cost labour and resources as well as growth and expansion, was their top choice for investment.

When considering offshore locations, purchasers must factor in the availability of skills, labour costs and technological infrastructure. In the case of manufacturing, this should include the price of raw materials and the location of the country. China may win on supply of labour now, but could countries in Africa with higher birth rates take over in the future? Could Poland beat the Far East given its proximity to the United Kingdom and lack of barriers owing to its membership in the EU?

Respondents to McKinsey's 2006 survey on business trends said that the most important development to affect global businesses over the next five years will be the growing number of consumers in emerging economies.

## Risks and challenges of globalization

Taking a balanced approach and building a portfolio of sources will allow purchasers to hedge some of the risks that are inherent in global supply, because when it comes to risks, there are many.

First, there is the damage to brand reputation sustained as a result of using suppliers with unethical employment practices. Since the sweatshop scandals of the 1990s, companies have been laid bare to accusations of child labour, low wages and horrific working conditions in their suppliers' factories. With the growing consumer and media interest in corporate social responsibility, this spotlight looks set to concentrate.

Many buying organizations now sign up to codes of conduct, such as the Ethical Trading Initiative's Base Code of Conduct, that set out ethical principles their suppliers have to meet.

But purchasers are warned that they cannot hide behind these codes and on-site audits, safe in the belief they are doing the best they can to improve the conditions for workers in their supply chains. Factories will continue to cheat on labour standards as long as buyers continue to lower prices and shorten lead times. Buyers need to review the impact of their core decisions on their suppliers' ability to meet their standards.

With suppliers dotted around the globe, buyers must be on the lookout for everything from shortages, late deliveries and supplier closings to weather changes and port strikes, as well as disruption from natural disasters or acts of terrorism. Local issues soon become global: consider the impact on supply routes of the contamination of livestock through avian flu or mad cow disease.

Climate change should also be on the radar. McKinsey argues in its article 'Going from global trends to corporate strategy' (*McKinsey Quarterly*, 2006, no 3) that few companies have considered the potential effects of a future shortage of natural resources.

Beyond a lack of energy, businesses should also consider the potential impact, for example, of scarcity of water or deforestation. Which businesses will win and which will lose? Will large-scale shipping of water become viable for the cargo industry?, asks the report. Can biotechnology companies grow crops that require less water or trees that grow faster?

Then there is the impact of debt and trade deficits and currency fluctuations on global economics. Buyers should consider the impact of a potential revaluation of the Chinese renminbi in reaction to trade imbalances between China and the West. If such a move were to happen, China could quickly become more expensive to trade with.

Buying organizations still frequently fail to protect the intellectual property rights of their products manufactured overseas. As Ian Bremmer and Fareed Zakaria pointed out in 'Hedging political risk in China' in *Harvard Business Review* in

November 2006, many foreign corporations may pursue legal action to protect their patents. However, owing to the nature of China's legal system, this could pose problems for outsiders.

'Involving Chinese stakeholders in the benefits that flow from technical innovation may, over time, promote greater enforcement protection,' the article says. Some foreign firms have found success in this area by pooling their efforts.

## Political unrest and globalization

A growing risk to global supply comes from new threats such as terrorism and political violence.

Respondents to Atradius's *Succeeding in Second-tier Emerging Markets* said that the most common challenges to investing in emerging markets were political, with 55 per cent saying that poor rule of law and political stability were the most significant.

A report published in May 2007 by insurance company Lloyd's revealed that over a third of companies avoid investing in overseas markets for fear of political violence. The report, *Under Attack: Global business and the threat of political violence*, also found that one in five of the 154 board-level executives interviewed have turned away from otherwise promising business opportunities for the same reason.

Companies should continually monitor the political and economic performance of the participating countries to look out for signs of turmoil, dissatisfaction, or religious and social tensions. In China, for example, fast growth, public resentment over land redistribution, the widening gap between rich and poor and industrial accidents all have the potential to fuel social instability. This can lead to governmental action to disrupt supply chains or erode investor confidence.

## The future of globalization and procurement

Another risk for purchasers is the potential backlash against globalization. The concept has always had its critics. Some have argued that it only favours corporations of the West, promoting unequal distribution of wealth and homogenization of brands and Western culture.

A growing interest in localization could intensify this backlash. The impact of carbon emissions from transportation on climate change is now high on the political and public agenda, which means that companies are having to justify the distance goods have travelled to reach their end destination.

'Food miles', or the distance from field to plate, has long been a concern for the food sector. As a result, supermarkets, such as Waitrose, have launched 'locally produced' ranges and Tesco announced in March 2007 that it is introducing carbon labelling to measure the carbon footprints of its products.

Purchasers in other sectors could be wise to take such a balanced approach to their purchasing decisions, mixing local with global supply where possible. Doing this now could pre-empt future damage to a brand once the media and consumer attention has spread beyond the clothes stores and supermarkets.

Working on a global scale was never meant to be easy and it is impossible to truly predict what the future holds. But if purchasers are to seize opportunities as well as avoid the risks of globalization, they need to take a wider look around them. In a world where everything is connected, everything matters.

This chapter is an extract from the CIPS white paper on globalization: 'Procurement – challenges and opportunities in a global marketplace'. The white paper was authored by Emma Clarke, a freelance journalist who specializes in purchasing and supply chain and corporate responsibility issues.

CIPS exists to promote and develop high standards of professional skill, ability and integrity among all those engaged in purchasing and supply chain management. CIPS assists individuals, organizations and the profession as a whole.

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## The Chartered Institute of Building

Englemere  
Kings Ride  
Ascot  
Berkshire SL5 7TB  
United Kingdom

**Email:** [reception@ciob.org.uk](mailto:reception@ciob.org.uk)

**Tel:** +44 (0)1344 630700

**Web:** [www.ciob.org.uk](http://www.ciob.org.uk)

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# Partnering in teams

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*Project partnering can reduce costs by 30 per cent and time by 40 per cent, while strategic collaborative working can reduce costs by 50 per cent and time by 80 per cent. Dr Sarah Peace and Professor John Bennett at the Chartered Institute of Building reflect on lessons learnt from a change in working practices in the construction industry*

## What is partnering and why does it deliver benefits?

Partnering developed originally in the North American manufacturing industries during the 1980s and 1990s as a response to Japan's strengths in these areas. It was adopted by the construction industry first in the United States and then in the United Kingdom. These early uses of partnering in construction were directly influenced by research in Japanese construction practice. Now partnering is used extensively in Western construction industries. It is supported by a substantial body of research that includes case studies of the successful use of partnering on individual projects and series of projects.

Things have changed over recent years and leading practices in UK construction have made great strides in producing world-class buildings and infrastructure quickly and efficiently. This has been achieved by moving away from traditional practice, first by adopting project management techniques and more recently by using partnering. Understanding these changes helps clients make best use of the construction industry and it also helps the industry itself to improve.

Partnering provides the basis for greater efficiency than older methods based directly on professional and craft practice and more recent methods on project management. This is because partnering treats project teams as networks of work

teams guided by well-developed communication links that include feedback systems. These characteristics define what science calls self-organizing networks as the most effective forms of organization for all living things, including human organizations.

Most published descriptions of partnering describe one version of current best practice. This can be misleading as partnering does not have one single fixed way of working. It develops as people work together. The approach used on any given project is chosen by the client and project team, taking account of their experience of partnering, the nature of the project and the client's objectives. As a result, some teams use partnering tentatively, others apply many of the features of published best practice, while a few have taken the ideas further to develop remarkable levels of efficiency.

In construction, partnering begins with very careful selection procedures. These rely on questionnaires, interviews and negotiations designed to ensure that the work teams forming a project team are competent and will work cooperatively. Price and cost play only a minor role. The aim is to select an effective project team able to concentrate on doing its best work. It is possible to use competitive bids, if the client insists on this, without undermining the basis of partnering.

Designers and specialists gain directly from partnering as it empowers them to use cooperative teamwork in making their own decisions through networks of well-developed communication links. A project manager can be included in the team to ensure that quality, time and cost control systems are used effectively. As in other industries, information and communication technologies provide essential support. These modern developments often require firms to reorganize themselves internally to actively support work teams using partnering.

These changes deliver benefits relatively quickly in construction because they build on natural ways of working used throughout the industry. People generally choose to cooperate with others who make their work easier and more successful. Small builders use the same tradespeople, architects use the same consultants, site managers use the same specialist contractors; all because they work reliably and when there are problems they help solve them. These natural ways of working are efficient and always have been. The industry's poor performance is caused by work teams being forced into adversarial defence of their own interests by competitive tendering, tough contracts or outdated management ideas.

Partnering builds on these natural and efficient ways of working. Clients discuss their projects with consultants, contractors and specialists to agree the best ways of achieving agreed objectives. Designers look to specialist contractors and manufacturers as a wonderful source of new ideas and solutions to problems. Contractors integrate their supply chains, and they are all helped in this by forms of contract that deal explicitly with cooperative teamwork.

The benefits produced by these developments can encourage all the participants to work together on a long-term basis. This gives rise to strategic partnering, which is usually based on the work of one major client. It develops further into strategic collaborative working which is providing the basis for a genuinely modern construction industry, which reliably delivers exceptional value for clients and robust profits for the construction firms involved.

The initial costs of establishing partnering are rapidly outweighed by the benefits, which include lower prices for clients, higher profits for consultants, contractors and specialists, faster completions, greater certainty and zero defects. Project partnering can reduce costs by 30 per cent and time by 40 per cent, while strategic collaborative working over a series of projects can reduce costs by 50 per cent and time by 80 per cent.

Partnering involves costs, which represent an initial investment that has to be met before the benefits emerge. The costs include time spent by senior managers in establishing the approach, careful team selection procedures, and training and partnering workshops.

These investments can be made gradually as the benefits emerge. It takes time for project teams to develop the abilities needed to use partnering effectively, so it makes sense to begin with small steps. Partnering can be developed by giving the same team a series of small projects. Some clients wanting to use partnering on a large project give the project team a small project first so they learn how to work together. If these arrangements are not possible, partnering can still be used by allowing time for the project team to discuss and agree how they will work.

Case studies, like Birmingham's Construction Partnership, show that project teams partnering for the first time can deliver substantial benefits but it takes time and the experience of several projects for the full benefits to be realized. Those that criticize partnering often say that it is not the easy option. It is tough, and it has to be worked on by everyone involved to achieve the full benefits.

Dr Sarah Peace and Professor John Bennett have established reputations based on research into contemporary practice in the construction industry and publication of the results in widely used best practice guides. Their joint work includes the influential 'Trusting the Team and The Seven Pillars of Partnering'.

John Bennett is a former professor at Reading University. His expertise is in building and construction and he manages the day-to-day operations at Bennett (Construction) Ltd. Dr Sarah Peace is the Chartered Institute of Building's Research Manager.

The above article is a book extract from the Chartered Institute of Building's (CIOB) 'Partnering in the Construction Industry – A Code of Practice for Strategic Collaborative Working'. Copyright 2006. All Rights Reserved. Published by Elsevier and the CIOB and available at [www.constructionbooksdirect.com](http://www.constructionbooksdirect.com) – the official bookshop of the CIOB.

# Smarter sustainability

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*The world is facing a number of well-publicized and interlinked environmental problems. As unlikely as it might seem at first glance, IT and communications products and services could well prove to be a key part of the solution. David Tebbutt at Freeform Dynamics drills deeper*

One of the most widely accepted definitions of sustainable development is that ‘which meets the needs of the present without compromising the ability of future generations to meet their own needs’. It came from the Brundtland Report, ‘Our Common Future’, published in 1987. The world is facing a number of problems which threaten this very idea. Developing countries with large populations want some of what we’ve been enjoying. And who can blame them? But, without significant change, it’s difficult to know how this might happen in a sustainable way.

## Company imperatives and carbon

Politicians have latched on to climate change and greenhouse gases as a convenient measuring tool. They have set targets and have put regulations in place, with more to come, in the hope of heading off further problems. And, while these are better than nothing, the danger is that these will be seen as all that’s needed when, in actuality, this is not the case.

Companies are usually driven by the bottom line, closely followed by regulations. It could be said that the company image is closely linked to profitability, although it is frequently cited as highly important as well. Few companies have ‘concern for the environment’ in their list of primary drivers.

This is why governments are intervening by putting a price on carbon so that it will influence change. In 2010 the United Kingdom government will introduce its Carbon Reduction Commitment programme for the 5,000 or so organizations which use large amounts of energy. It intends to punish and reward companies according to their year-on-year performance. Actions taken before the scheme starts will be taken into account, as will growth-related changes.

In this way, the government is tying the two most powerful motivators, money and regulation, together. Smart companies have already realized the value of a genuine green agenda and, indeed, some have discovered they can achieve some tactical success with a greenwash agenda too. This will change. In order for companies to convincingly promote their sustainability credentials, they will need to be sure that their suppliers are stepping up to the mark. Many companies are already asking their suppliers for details of their ISO 14001 environmental initiatives.

## ICT

Two organizations have independently concluded that ICT is responsible for 2 per cent of the world's carbon emissions. And a lot of thought has been put into reducing this figure through various technical and behavioural measures. But it is still only 2 per cent and, while it is important to optimize it, the remaining 98 per cent needs to be addressed. Some of the savings will not require an ICT component but many of them will.

Research conducted by Ecofys for the World Wildlife Fund identified 10 strategic ICT-related opportunities to reduce greenhouse gas emissions. If the recommendations are followed, it will prevent at least a billion tons of CO<sub>2</sub> from entering the atmosphere, by 2020. The areas are: Smart working; Dematerialization; Smart buildings; Smart appliances; Smart vehicles; Intelligent transport; Smart industry; Industrial plant optimization; Smart city planning; Integrated renewable energy; and Smart grid. Some of them may not apply to your business, but all of them show that the close involvement of ICT can deliver results.

Remember that this is a list of the top 10 areas where ICT can help bring about significant change. Many other changes adopted at the level of millions of smaller organizations would aggregate up to some very large savings. Some of the applications mentioned above belong to specialist organizations and will make sense if you're one of them. But all businesses can benefit from the first three items: smart working, dematerialization and smart buildings.

Smart working enables people to work remotely while still being able to collaborate effectively. Such remote working can cut business trips and reduce commutes. Smart working overlaps with dematerialization, which is about moving or connecting things electronically rather than physically. This could apply to teleconferencing, where images are moved rather than the participants. But it could also apply to publishing reference materials, such as catalogues, directories and manuals online, instead of on paper. Smart buildings could, for example, adjust lighting and heating and possibly electricity supply, according to whether people are present. Such facilities can be

retrofitted to existing buildings but a careful assessment of the disruption involved, the costs and the expected benefits would need to be made.

All of these activities require the involvement and support of ICT. Yet, in almost two-thirds of businesses, ICT is still seen as an ‘operational necessity’ or a ‘burdensome cost’, rather than an enabler of business advantage. Fewer than one-third of IT departments are accountable for their own power consumption. These statistics, taken from a recent Freeform Dynamics survey of almost 1,500 IT professionals, suggest that ICT is not seen as an integral part of most organizations. But, if IT is to be a key element in a company’s sustainability initiatives, it has to be much closer to the board and play an active role in both planning and implementation.

## Equipment and resources

Some still argue that electronic equipment is the cause of at least some of our environmental troubles. By the time a traditional PC, for example, was installed, its manufacture and delivery had already gobbled up a couple of tonnes of raw materials and emitted all manner of noxious substances. Many of the machines still in use today use large amounts of energy in operation and then, when it’s time for an upgrade, they have to be disposed of in an environmentally acceptable way. This whole process is referred to as ‘life cycle’ but most advocates of new equipment conveniently ignore the life-cycle costs, preferring to speak of the ‘in use’ energy efficiency of the new machines. When it comes to the bottom line, it’s a seductive argument, even more so when ICT is applied to enabling much greater environmental savings elsewhere.

However, immediate and practical measures can still be made to reduce the impact of ICT in the short term and minimize it in the longer term. Equipment refresh cycles can be lengthened, reducing the environmental impact of new equipment. Server devices can host multiple applications dynamically, thus reducing the total number of running machines. Some ‘dematerialized’ computers called ‘thin clients’ can be put on many people’s desks, rather than running a full-power notebook or desktop PC; end-of-life equipment may have a useful role elsewhere in the organization or outside, in a charity perhaps. If absolutely necessary, it could go to responsible recyclers. Staff could be encouraged to switch off equipment when leaving the office and switch off laptop, phone and smartphone chargers when not in use. They can also be strongly discouraged from printing unless absolutely necessary. Some companies do this by reducing the number of printers, so that getting to them involves a walk across the office.

In the longer term, it’s possible to cut energy used by consolidating equipment in multiple locations, thus saving on property costs. And, for those that have a data centre, the layout can be optimized, intelligent cooling systems introduced and any waste heat put to good use.

These measures will save money and energy and, as a by-product, help the environment. But they still address only part of the problem. It’s still important to look for the wider opportunities within the organization.

## A holistic approach

Everyone is in this together. The ‘us’ and ‘them’ of the past is a hindrance to taking positive and cooperative actions. From the research, we know that management that commits to a sustainable agenda will find that staff are mostly willing to come on board. It doesn’t matter whether the company drivers are fiscal, regulatory, PR value or anything else. Staff are likely to support you because it’s ‘the right thing to do’. And, if the leadership comes from the top of the organization, then it can cascade smoothly through local champions across the company.

A cultural shift can take place in which individual employees are encouraged to ‘think green’ and avoid waste, whether it’s paper, energy or unnecessary travel. It still has to be done in the context of getting the work done effectively, but you may be surprised by the welcome you receive for taking such an initiative. It will, after all, resonate with their private lives and, certainly for the parents among them, with their concerns for the future they’re making for their children and grandchildren.

### Glossary

**CRC** The government’s Carbon Reduction Commitment which aims to cut carbon emissions from large commercial and public sector organizations starting in January 2010. Source: DEFRA.

**Ecofys** An international firm of environmental consultants. Eleven of its authors contributed to the Intergovernmental Panel on Climate Change (IPCC) reports which helped it jointly win the Nobel Peace Prize in 2007 with Al Gore.

**Greenwash** The act of misleading consumers regarding the environmental practices of a company or the environmental benefits of a product or service. Source: Wikipedia.

**ISO 14001** The international specification for an environmental management system. Source: Wikipedia.

David Tebbutt is a veteran of the IT industry, and has been closely involved with sustainability since 2003. In his current role, he is a senior analyst with Freeform Dynamics, the firm best known for introducing the concept of ‘community research’ as a foundation for helping businesses in their use of ICT. More of David’s work, and indeed all of the content from the Freeform Dynamics open community research library, may be accessed via [www.freeformdynamics.com](http://www.freeformdynamics.com)



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# Managing a fleet

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*Rising fuel costs and controls on CO<sub>2</sub> emissions make it tougher than ever for SMEs to run their company vehicles, says Keith Hawes at Renault UK*

Running a fleet is typically the second biggest expense after staff for most businesses, so it makes sense for company directors to have their finger fully on the cost of vehicle operation. Unfortunately, in many SMEs where there is no full-time fleet decision-maker there is too frequently a laissez-faire attitude to both the cost implications and the day-to-day running of vehicles.

With a slowing economy and rocketing fuel prices – up 30 per cent in the last 12 months – cost control is a board prerequisite if fleet operating budgets are to be kept in check. The importance of analysing the ‘real’ cost of fleet vehicle operations is also being underlined as a result of falling residual values, forthcoming changes in corporate tax rules on business cars and potential increases in Vehicle Excise Duty.

Add into the mix corporate concerns about carbon footprint reduction and the rapidly increasing importance of occupational road risk management as the government, police and Health and Safety Executive unite to reduce the crash toll involving at-work drivers, and the result is that fleet management has never been more in the spotlight or more complex.

## Fleet funding

Best practice indicates that all companies should review their fleet funding arrangements at least annually.

Historically, most companies outright purchased their company cars and vans. However, a steady move away from outright purchase – particularly of company cars – was hastened by mid-1990s VAT regulation changes.

Today, less than half of company cars are bought outright. The majority of company cars are now leased. While there are various forms of leasing, contract hire is the most popular, either with or without maintenance over a predetermined contract period. In addition, there is a growing trend for vans to be leased as businesses move away from the philosophy of ‘running them until they fall apart’.

While three years/60,000 miles has been the historic benchmark replacement cycle, there is a trend for fleets to run vehicles longer and the typical replacement cycle now runs to perhaps 40 months, with mileage varying.

A lengthening of replacement cycles has been influenced by a move in recent years to longer vehicle servicing intervals – up to 20,000 miles in some cases – the increased reliability of modern vehicles and rocketing demand for diesel vehicles with their wear and tear benefits over petrol technology.

Contract hire has become the favoured form of fleet funding for a number of reasons. They include the fact that it gives companies a budgeted cost for each month of the contract period, with no nasty surprises if maintenance is also included, and shelters fleets from the impact of depreciation, as the leasing company takes the risk on selling the vehicle at a predicted price.

Collectively, by leasing, companies have freed up hundreds of millions of pounds traditionally tied up in depreciating assets to invest in other areas of business over the years. A quick win in this regard has been for outright purchase fleets to turn to leasing through an immediate sale and leaseback arrangement with a chosen supplier.

## Flexible rental

However, a burgeoning funding route is so-called ‘flexible rental’. With the current uncertain economic outlook, companies are struggling to predict the future – but they still require vehicles. For a traditionally purchased or contract hired fleet, this could spell a crisis, as the business would then face the additional cost of distress selling its own vehicles or accepting significant penalties from a leasing supplier to hand them back early.

As a result, so-called flexible rental is gaining in popularity. A funding hybrid – effectively a cross between rental and contract hire, known monthly budgeted costs can be blended with the ability to increase the number of vehicles a company requires in the event of business levels rising or, in the event of a slowdown, cut their fleet size without any financial penalty.

## Whole-life costs

While vehicles should always be ‘fit for purpose’ in today’s health and safety-focused world, choice lists should also be based on whole-life costs.

Individual vehicle pence per mile (PPM) operating figures are available from a multitude of sources, including vehicle manufacturers such as Renault, and these

should be used to help companies to compile their ideal fleet choice list. Fleets that continue to base choice lists around on-the-road prices will often find that two cars with identical or very similar prices will have very different PPM figures. Pick the wrong one and it could cost a fortune.

Meanwhile, with many corporates looking to reduce their carbon footprint, an increasing number of businesses are opting to introduce an element of 'carbon-capping' to their company car choice lists.

More and more vehicles are coming to the market with lower CO<sub>2</sub> emissions – Renault, for example, has almost 100 models across its range that emit 140 g/km of CO<sub>2</sub> or less, putting them amongst the lowest-emission cars on the United Kingdom's roads.

Not only does the running of low-CO<sub>2</sub>-emitting vehicles make environmental sense, but it also makes financial sense for businesses and drivers.

Typically, the lower a car's CO<sub>2</sub> figure the better its fuel consumption. Therefore, while the 'greenest' mile is the one that is never driven, directors should be taking action to combat rising fuel bills – which are fast challenging depreciation as the single biggest fleet cost – by going 'green'.

Additionally, because the government's entire vehicle taxation system is based on CO<sub>2</sub> emissions, compiling a fleet choice list around low-emission vehicles will help drivers reduce their benefit-in-kind tax and companies cut their Class 1A National Insurance bills – contributions are paid on benefits-in-kind.

Meanwhile, two important tax changes are due to come into effect in 2009 that are aimed at further driving fleets along the 'green' road. Further changes to graduated Vehicle Excise Duty are scheduled for April 2009, with additional reforms in April 2010 designed to incentivize the uptake of low-CO<sub>2</sub>-emitting cars.

These will not only make high-emission cars more expensive to tax, but the second-hand value of these vehicles is falling – another reason why fleets should look to offset the residual value risk to someone else by leasing or renting.

Additionally, the introduction in April 2009 of emission-based business car capital allowances, with cars above 160 g/km costing more to own and lease, further underlines the cost-saving potential of going 'green' to fleets – not to mention the continuing tightening of benefit-in-kind tax and the 2008/9 financial year introduction of an ultra-low 10 per cent company car tax rate for sub-120 g/km cars.

## The 'grey' fleet

The 2002 company car tax changes and the introduction of an emissions-based benefit-in-kind tax regime were the catalyst for many companies to introduce one of a myriad of cash alternatives to the company car.

However, with the increased importance of occupational road risk management and the April 2008 introduction of the Corporate Manslaughter and Corporate Homicide Act, an increasing number of companies are returning to the traditional company car set-up.

Industry research suggests that employers that allow staff to drive their own cars on company business – the 'grey' fleet – are fuelling a health and safety time-bomb, with

almost two-thirds of the estimated hundreds of thousands of privately owned company cars driven on business poorly maintained and incorrectly insured.

Legal responsibility for the ‘grey’ fleet is black and white. In the eyes of the law a company is responsible for all vehicles driven on company business – irrespective of who owns them.

Research also suggests that ‘grey’ fleet vehicles are older than company cars and therefore less environmentally friendly, invariably have higher carbon dioxide emissions, and that tax-free mileage reimbursement rates are an incentive for staff using their own cars on business to clock up ‘extra’ mileage.

## Less is more – reducing business mileage

Simultaneous with fleets reducing their risk exposure and their carbon footprint is a desire by business to reduce their reliance on car travel.

That does not mean ‘doing away’ with company cars. What it does mean is encouraging staff to look back at every time they drive their cars, and see if some of those journeys could have been replaced by a simple e-mail, telephone call, or even holding an online meeting.

There will always be a place for face-to-face meetings to ensure a successful start to a business relationship, but that meeting could also be used to secure support for an environmental approach to undertaking business in the future. After all, with companies increasingly being expected to show their environmental credentials when bidding for new business, a supplier that shows a clear long-term commitment to the environment might find it has the edge over its competitors.

The use of rental cars – particularly as an alternative to staff using their own cars on business – videoconferencing, car sharing, public transport and telematics/route planning all have a role to play in offering viable solutions which, used properly, can reduce mileage, cut fuel costs and make businesses more efficient and profitable at the same time. Further information is available from the Energy Saving Trust at [www.energysavingtrust.org.uk/fleet](http://www.energysavingtrust.org.uk/fleet) or call 0845 602 1425.

## Safe fleet operations

Driving on business, for the majority of employees, is the most dangerous task they undertake during their working life, according to Department for Transport figures. With 200 road deaths and serious injuries a week resulting from crashes involving at-work drivers, British business, it is estimated, is losing up to £2.7 billion a year as a consequence of at-work road traffic accidents and society is paying a further £1 billion.

Costs can be broken down into many areas – some financial, others not quantifiable – but nevertheless a cost to business and almost certainly hitting bottom-line profits. Industry data suggests that average crash repair costs are around £700–750 per insurance claim, but the Health and Safety Executive has calculated that for every £1 recoverable, between £8 and £36 may be lost to a company in uninsured costs.

Therefore, by managing occupational road risk and putting in place a cycle of continuous road safety improvement, a company's fleet efficiency will be improved as vehicle downtime and staff sickness levels will be significantly reduced, resulting in a boost to the organization's safety image – after all, the company's drivers are also its ambassadors. See the Department for Transport's 'Driving for Better Business' website at [www.drivingforbetterbusiness.com](http://www.drivingforbetterbusiness.com).

In deciding that vehicles are 'fit for purpose', companies should take European New Car Assessment Programme crash test ratings into account alongside emissions levels and whole-life costs. Further information at [www.euroncap.com](http://www.euroncap.com).

Crash test ratings exist for both vehicle occupants and pedestrians, with Renault leading the results with a total of nine models having scored the top five stars for occupant protection – more than any other manufacturer.

## Outsourcing and fleet management

The increasing complexity in running a fleet means that more and more companies are turning to external experts for the sourcing of a raft of fleet-related products and services.

The menu of services available allows companies to 'pick 'n' mix' a wide range of products to meet their own individual requirements, while simultaneously providing access to external experts and significant benefits from the economies of scale which these leasing and fleet management companies have in place with various suppliers.

Not only that, but such companies will also handle all the day-to-day administration associated with running a vehicle fleet, ranging from acquiring and disposing of vehicles efficiently to arranging and authorizing service, maintenance and repair work and liaising directly with drivers.

With fleet decision-makers in many companies also having responsibilities outside of the corporate travel arena, particularly in SMEs, the benefits of a fully outsourced fleet service with experts just a telephone call or an e-mail away continues to win customer support, leaving directors to focus 24/7 on their core business and strategic fleet issues.

### **Pitfalls to avoid**

1. Providing cash instead of company cars can be viewed by directors as an 'easier' option, thus avoiding the complexities associated with running a fleet – but it can be more expensive where often the cash allowance is too generous, health and safety-related issues around privately owned vehicles are raised and the environmental impact of cars is increased owing to limited controls over the vehicles driven on business.
2. Cash opt-out schemes where the allowances have been based on a 'notional value' rather than calculating the 'true value' of the company car – often the cash allowance is not comparable to the company car offered after tax and National Insurance which can result in an expensive scheme for businesses.

3. Small companies typically purchase cars believing leasing is expensive – but for these organizations leasing can be very cost effective owing to the supplier's buying power and expertise regarding vehicle acquisitions and disposals. Contract hire will also protect the company from residual value and maintenance risk.
4. When choosing a leasing supplier, be wary of selecting on lowest rental – like many areas of business, often you get what you pay for. Ensure that the services offered are comparable and of an acceptable quality and level. Then look at the best value for money.
5. Basing vehicle allocation lists on car list prices – the list price does not represent the vehicle's actual cost of ownership. With many vehicle taxes based on CO<sub>2</sub> emissions, vehicle selection should be based on whole-life costs.
6. Not appreciating the tax implications of a company car's CO<sub>2</sub> emission levels – many companies and employees know that low CO<sub>2</sub> emitters are more tax efficient, but employers don't quantify this in financial terms or provide an incentive scheme to encourage the uptake of low CO<sub>2</sub> cars for user choosers, or insist that job-need cars are restricted by CO<sub>2</sub> emission levels.
7. Providing unrestricted choice for job-need/high-mileage users – for these employees there should be restrictions or disincentives in place to ensure that only low CO<sub>2</sub> and highly fuel-efficient vehicles that are fit for purpose are allowable on the fleet.
8. Poor management of fuel – far too few companies properly manage the provision of fuel, considering the price of a litre. The efficiency of the vehicles and how the drivers drive the vehicles as well as issues surrounding abuse and theft of fuel need to be managed, and fuel cards can assist. Even if fixed reimbursement rates are used for business mileage, control is still required to ensure that the rates are fair and reasonable and that mileage declarations are correct.

Source: Chris Chandler, senior consultant, Lex Momentum Consultancy Services. Lex is Britain's largest contract hire company with a fleet of more than 250,000 vehicles.

For further details see: [www.renault.co.uk](http://www.renault.co.uk)

# Better-quality contracts

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*If you are looking to win better-quality contracts, then providing your customers with accurate and reliable products or services is a key element of your offering. Using accredited services is proven to be a fundamental way of delivering this confidence, says Jon Murthy at UKAS*

In an increasingly competitive business environment, companies small and large, public and private, have one main goal in common; to control internal costs while simultaneously increasing sales. Simple to state, but considerably more difficult to achieve, particularly in testing economic conditions. However, accreditation is one tool that can help businesses grow through winning better-quality contracts with customers.

Businesses need to have confidence in the goods and services that they procure. In essence, UKAS accreditation is a tool for ensuring the technical competence of an organization to carry out one or more specified tasks, such as testing, calibration, inspection or certification. Many businesses are finding that more and more of their customers want to see evidence that their suppliers are using UKAS-accredited services. This trend was confirmed by independent research carried out by Databuild in 2007. Of the organizations surveyed, 43 per cent of large private sector organizations required that their suppliers use certification from an organization accredited by the United Kingdom Accreditation Service (UKAS), an increase of 29 per cent since 2004. There is a similar pattern in the public sector, with 36 per cent of organizations seeking greater confidence from their suppliers.

This trend will continue following the government's publication of a 'Code for Regulators' which recommends the use of existing accreditation schemes. A greater emphasis will also be placed on accreditation following the adoption of a new



European Regulation. Therefore, businesses seeking to win better-quality and longer-term contracts in both the public and private sectors will need to demonstrate the use of accredited services.

## What services can be accredited?

Accreditation is designed to check the checkers and breaks into three main activities:

- Certification applies to standards that relate to business operation, the most commonly used being ISO 9001 for Quality Management and the Environmental Management standard ISO 14001. There are many other aspects of business life that can be certified, including products, personnel, information security, IT and occupational health & safety.
- Inspection regimes cover product design, products, materials and equipment, installations, plant, processes and services. Some of these areas will be subject to legislation that demands regular inspection, such as the Provision and Use of Work Equipment Regulations 1998.
- Product testing and calibration are used to demonstrate that a product meets a specification. This might be a customer requirement, a part of a product development regime, or even a legal obligation. More than 1,500 facilities in the United Kingdom have been accredited by UKAS to the laboratory standard ISO/IEC 17025.

## How does accreditation work?

Accreditation is an ongoing business process rather than a one-off achievement. An assessment is carried out to establish that:

- the evaluator is impartial;
- the evaluator is technically competent to do the work in question;
- the resources and facilities are appropriate and sufficient for the work;
- the evaluator's actual performance is to the required standard;
- the evaluator is capable of sustaining the required level of performance.

Once an organization is accredited, an assessment is carried out annually at the customer's premises by a team of experienced assessment managers supported, where required, by independent assessors with specialist technical expertise. Assessors act on behalf of the customer's industry sector but they are also conscious of the customer's business objectives. The assessors check that the customer is achieving what they claim to be achieving and they provide constructive criticism and will advise on best practice.

An assessment is a comprehensive and transparent health check on a business by a respected and independent third party. Once accredited, businesses are monitored annually and reassessed every four years. This continuous assessment cycle ensures that evaluators adopt and develop practices that are consistent with the demands of the sectors in which they operate.

# Look for the UKAS mark



## Save Money... ...Reduce Risk

If your business uses **testing, calibration, certification** or **inspection services** in these sectors, *look for the UKAS mark* when choosing your suppliers



“Our supplier selection policy stipulates that a business must demonstrate financial viability, Health & Safety competence, and UKAS accreditation. As a purchaser, it is essential that we get what we ask for.

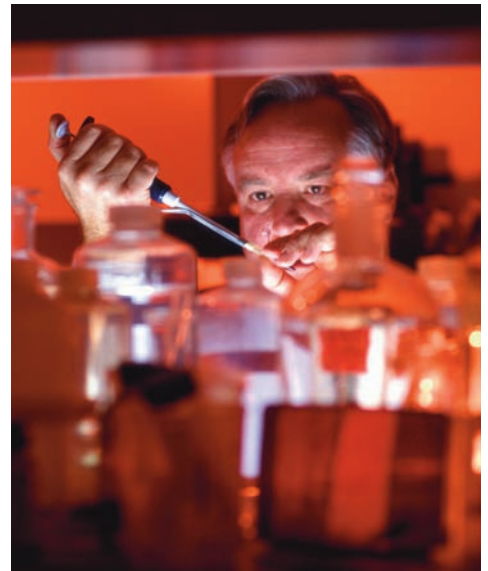
UKAS accreditation is a pre-requisite whenever we are choosing an organisation to work with to help us manage asbestos. We do not however look for UKAS accreditation in one area of asbestos management. We would look for it in all areas – for example for testing, surveying and air testing.

The reasons for using a UKAS-accredited company are manifold. Firstly, it is a way of ensuring the quality of the work. However it is not just about the quality, as we are dealing with the management of asbestos in schools and offices, and so there are clearly reputational issues at stake as well.

Using a UKAS accredited organisation is not going to necessarily increase the price of procuring a particular service. A UKAS accredited organisation will offer value for money. The cost of getting it wrong and re-working is phenomenally expensive. This would not be the best use of rate payers’ money. It is much cheaper to get it right first time.”

**Glenn Turner,**

Head of the Scientific Service,  
Hampshire County Council



Visit **www.ukas.com** to find out how using a supplier accredited by UKAS will deliver real benefits for your business

*Delivering  
Confidence*

## Why accreditation?

Companies big and small buy independent evaluations either through choice (to reduce the risk of product failure, for example) or as a consequence of legal requirements (such as health and safety regulations). It is the ability to distinguish between a proven, competent evaluator that ensures that the selection is an informed choice and not a gamble. Too many of Britain's companies run the risk of undermining their long-term success by purchasing independent evaluations that are not properly accredited. Examples of such risks are product failure caused by invalid test results, increased costs caused by inaccurate measurement, legal action arising from inadequately inspected equipment resulting in accidents, and rejected tenders and orders.

An increasing number of organizations, in both the public and private sectors, are specifying accreditation as a precondition to tendering for contracts. A company that either holds or utilizes accredited certification services is therefore able to overcome this hurdle and widen the potential market for its goods or services.

David Gallsworthy, Head of Quality Systems at Central Science Laboratory

'The ISO standard demonstrates the competence of a laboratory and is a crucial part of ensuring the quality of our work. To do work in the food sector you have to have accreditation to ISO 17025. In many cases it's a prerequisite for the work undertaken and an expectation within the food industry. If we didn't have the accreditation we wouldn't be able to do the work.'

Beyond the legal requirements, accreditation also offers market differentiation and shows credible evidence of best practice, helping to help win new business and provide access to sectors that are proving difficult to break into.

Jonathan Grant, Managing Director, Gully Howard

'You don't have to be accredited for the asbestos surveying side of our business. However, our clients look for accreditation by UKAS anyway, as it means that a number of checks have already been performed in a rigorous way by an independent external organization. Not only does this give them confidence in our abilities, it also saves them time and expense in performing those checks themselves. There is no way that we would have had Hampshire County Council as our client unless we were UKAS-accredited.'

## Global marketplace

By widening the potential marketplace, businesses increase the number of companies they can do business with, and are in a better position to pitch for higher-quality

contracts. As accreditation is recognized internationally it can open doors abroad equally well as those in the domestic market. This is made possible by a series of multilateral recognition agreements (MRAs). These operate as catalysts for the UK economy in two ways. In addition to helping companies with UKAS accreditation or accredited certification to pitch for business abroad, it also enables UK companies to have confidence in the results for accredited facilities in other countries.

Stephen Kirk, Chief Executive of RFI

‘UKAS accreditation is recognized across the world. This makes it much easier for us to attract clients from overseas abroad. Typically our customers are looking to sell their products in anything up to 50 different countries. It is not feasible for them to have their product tested in every single one of those countries. The costs involved would be prohibitive, and the subsequent delay to market would place those products at a severe competitive disadvantage. The MRAs mean that customers can have their products tested once, and the results of that test are accepted in every signatory country around the world, effectively giving them an international trading passport.’

## Internal benefits

In addition to increasing potential business, accreditation also has a key role to play in saving businesses time and money. As anyone busy running a business knows all too well, sourcing the right people or organizations to carry out particular key services can be a time-consuming process that is fraught with ‘unknowns’. Using UKAS-accredited services can make sourcing an appropriate supplier a lot easier and quicker.

At first glance, achieving UKAS-accredited certification status may appear to be yet another distraction that prevents time-strapped business owners from concentrating on providing the company’s products or services. In fact the opposite is true, as accreditation can help those owners devote more time to the sharp end of their business.

Accreditation provides the ideal opportunity to widen the focus from simply getting product and services out of the door. Taking a step back and really looking at how a business is operating allows improvements to be identified and processes to be streamlined. For example, an organization may find that it is performing the same function in a number of different ways, or repeating a process unnecessarily.

Howard Inns, Marketing Manager, Affiniti

‘Implementing an ISO 14001 system has made a real benefit to our business. As well as improving the environment through switching off computer screens and widespread paper recycling, we have seen financial benefits such as lower electricity bills and reduced landfill charges. The certification auditing process

really helps to focus the mind on best practice, as you never know where the auditor will probe. It also helps staff to realize that it is a fundamental part of the process rather than something that you park in a book on a shelf somewhere.’

As an accredited supplier, you can:

- reduce paperwork and increase efficiency by reducing the necessity to re-audit your business or re-test your products for new markets;
- de-risk your procurement by taking the guesswork out of choosing an evaluation body and by giving you confidence that you will get the service that best fulfils your requirements;
- win new business, particularly since the use of accredited services is increasingly a stipulation of specifiers, most notably in the public sector;
- facilitate access to international markets since UKAS-accredited certificates have global recognition;
- receive assistance with adopting best practice since your evaluating body is required to have appropriate knowledge of your business sector;
- control costs because accurate testing, calibration and other evaluation services along with the adoption of best practice can limit product failure and downtime;
- help with knowledge transfer and product development since accredited evaluation bodies can be a good source of impartial advice;
- offer market differentiation and leadership by showing to others credible evidence of good practice, for instance in your environmental management systems;
- demonstrate due diligence in the event of legal action.

## Using accredited services

Just as achieving accredited certification status is not about having a certificate to hang on the wall, there is more to using accredited services than merely ticking compliance boxes. An evaluation service accredited by UKAS has proved that it complies with the best practices of the particular industry. It has also demonstrated that it is competent to deliver a consistently reliable, impartial, and accurate service, which meets the appropriate internationally recognized standard. When a business chooses an accredited supplier, it can be sure that it is receiving the best and most appropriate service for its needs.

Barry Denton, Operations Director, Pasta Reale

‘Our strategy has been to not invest in in-house laboratories for testing and process control. Instead we use other UKAS-accredited services as part of our

ongoing operation. This provides us with the assurance that their services meet a standard that is impartial and expert in its field. Their results have a confidence and credibility that is vital to us and our customers.’

The United Kingdom Accreditation Service (UKAS) is the sole body recognized by government to carry out accreditation of businesses, offering conformity assessment services such as certification, inspection, testing and calibration. It assesses these bodies against internationally agreed standards. Accreditation by UKAS is the key to ensuring that suppliers, purchasers and specifiers can have confidence in the quality of goods and in the provision of services throughout the supply chain.

By choosing a UKAS-accredited supplier, not only can you be assured that you are receiving the best and most appropriate service for your needs but you will also discover that the UKAS ‘mark’ on your documentation brings with it national and international recognition and credibility for your business. Better credibility for your business increases your chances of securing better-quality contracts.

To locate a UKAS-accredited evaluation body in your area or one that provides a particular specialist service, help is at hand. Visit [www.ukas.com](http://www.ukas.com) for full details of all UKAS-accredited organizations. Alternatively, further information about UKAS and its accreditation role can be obtained by:

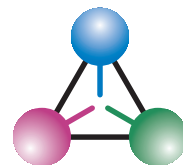
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# Making your supply chain work for you

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*Rising costs mean that effective supply chain management is even more essential, says Chris Wright at Skillweb*

Not the sexiest of titles for a chapter designed to give valuable and practical advice on supply chains, is it? Perhaps it would be better if we had used the fear factor, ‘reduce escalating fuel costs’, or perhaps we could use surprise, ‘40 per cent of the retail cost is the cost of getting it to the consumer’ or maybe we could entice you, by offering to ‘save 20 per cent of your supply chain costs’. Whichever title we had used, there is one simple fact: if you use a supply chain to get your products out to your customers, you are bound to be feeling the current and real pain associated with rising supply chain costs. This article is therefore about what it says on the label, making your supply chain work for you.

## Fulfilment

Fulfilment of your customer’s order is an all-important aspect of your brand, your promise, and even if you subcontract supply out to a third party you will still be judged by your consumer on their performance. This article therefore takes two scenarios and looks at how a business might monitor and improve their associated supply chain. The two scenarios are: 1) a modern e-tailer, selling goods on the internet and shipping products out to its customers using standard parcel delivery services; and 2) a



traditional retailer using its own distribution resources or third-party services to multi-drop customers' orders during the working day.

In each scenario this article will look at current best practice, what does go wrong and therefore how you might gracefully recover from failure.

## Your customer

However, before we do this analysis it is important to set the scene in terms of the consumer – your customer – and determine which of their needs you must fulfil. I thought therefore that I would do the analysis on me and my son to show you the difference between typical customers and the challenges you face. I'm a baby boomer, currently in my late 50s. I hate shopping – there is no such thing as retail therapy in my book. I therefore do all my shopping online: books, CDs, holidays, insurance, shirts, garden furniture, white goods and, lately, suits as well. I'm fickle, I'm time poor, no preferred brand, I'm simply looking for value for money. If I compare myself with my father, he never had a computer; he had a tailor, he would wait patiently for delivery, understanding if it went wrong, no real expectations. I guess everyone who suffered through the lean war years is the same. However, when you are fulfilling my purchase I simply expect it to be delivered as promised. I rarely tolerate failure, although I will understand if the weather and possibly the traffic delay something, as long as I get notified. Poor service is abhorrent and I will not use suppliers who don't meet their promises.

So to my son, or rather his generation: increasingly buying off their phones, maximizing the use of available bandwidth; doesn't mind retail therapy, prefers to have things delivered, but is never at home to receive the goods. Is more demanding than me, uses social websites to spread the word, particularly bad news. His social network is circa 1,000 people and this is then literally millions through friends of friends. Viral networking and its influence on their spending money is key to their lives. It is a strange but modern phenomenon that these networks are gaining real influence, and retailers ignore them at their peril. While I accept I'm difficult, my son is a nightmare for the e-tailer – just how do you deliver to him first time every time and get him not to complain to his millions of connections when you fail in your promise?

## E-tailers

If we examine e-tailers, they take orders off the internet (and increasingly phone networks) and ship their customers' orders through the parcel carrier network. Their supply chain is totally outsourced, they are reliant on the carrier for service and often the carrier is the only interface with their customer. A few years ago e-retailers used to make money from delivery charges (there are a few who still do!) but increasingly it is service that is dominating the user demand. My son compares delivery costs as part of his research on whom he will buy from. The trouble is that the true cost of delivery is increasing, fuel prices in particular, but all other costs as well, salaries, road fund tax, vehicles and much more. The challenge then is to find a parcel carrier who will a) deliver to user expectation and b) control the cost. The key to successful and cost-

effective meeting of your user's delivery expectations, ie on time, first time, when promised, is communications. Smart e-tailers are increasingly amending their websites to take more delivery instructions from their customers: mobile phone numbers to arrange and agree delivery, special instructions as to what to do if they are not at home and also increased security measures to stop fraud.

As an e-tailer looking to reduce your supply chain costs you should be looking for parcel carriers who provide the following services:

- a one-to-one relationship from them to your customer, usually a messaging or voice communication;
- multiple attempts to deliver before the parcel is returned to sender;
- navigational tools to help find addresses;
- proof of delivery and security of delivery;
- a high first-time success rate.

A parcel carrier that can provide these services will be offering lower costs than their competitors because their high first-time delivery rate means fewer costs for them, which they should be passing on to you. So shop around – there are some bargains to be had, and in fact if you find a parcel carrier promising all of the bullet points above you will improve your customers loyalty as well.

## Internal or outsourced distribution team

If you have your own delivery team, you will probably be well aware of rising costs already identified above, especially fuel. From \$80 to \$160 a barrel in a year, with the threat of \$200 in the near future, means that fossil fuels will forever be expensive. In time, you will undoubtedly migrate to other fuels but in truth that eureka moment (a cheap alternative) is still some way off. You therefore have to find a way of reducing your miles and there are only two key ways of doing it: 1) drive more slowly, taking your foot off the gas, so that the engine is working at peak performance; 2) schedule your work to improve vehicle utilization, improve your first-time delivery ratio and drive fewer miles.

There is a dilemma here: driving more slowly means fewer drops per day and therefore more journeys; however, if you can improve your utilization then this need not be the case. Scheduling is therefore all-important. The challenge is that scheduling tools are expensive, aren't they? Well, no longer, there is a new breed out there – ones that use the internet and provide the software as a managed service; importantly, ones that you can use on a pay-as-you-go basis.

Modern techniques mean that you can capture your orders, pass them to your warehouse for picking, packing and labelling, and then pass them to an individual trip-planning application to reduce your mileage. An interim step might be to contact your customer and agree delivery – this step ensuring that you deliver first time every time. The scheduling system uses mapping systems such as Google Earth and superimposes delivery icons over them to help your supervisors visualize the trip. Simple drag and drop enables the planner to use their local knowledge and then, when sent

off to the planning tool, the result can be validated and improved. The results can then trigger delivery notes, loading sequences and the driver's manifest.

A key part of your modern multi-drop delivery fleet is the use of mobile computers, not only to provide a manifested schedule for the driver but to track planned deliveries against actual and provide tools to help the elegant recovery of a problem. Use of the mobile computer can also help determine how fast your fleet is driving and the fuel consumption they are achieving.

## Making your supply chain work

It's a given that you will want to control supply chain costs; it's also likely that you use parcel carriers or third parties to fulfil the order delivery to your customer (only one-third of businesses manage their own deliveries). Historically, you probably left the delivery company to get on with it; today, you can no longer afford to do so. You have to manage the delivery to your end customer both to reduce your supply chain costs and to improve your service levels out to your customer.

The best advice is that you insist your parcel carrier has a relationship with your customer on your behalf: that each delivery is a transaction that is managed using sensible communication channels and that they pass on the cost reduction they achieve to you. Note: using the techniques identified above, parcel carriers can move their first-time success rate from the industry standard of 85 per cent to over 95 per cent!

Whether you use third parties or do it yourself, the advice is simple – use a modern scheduling tool on a per trip basis, couple this to mobile computing and track planned deliveries with actual to continuously improve.

Chris Wright is managing director and co-founder of Skillweb with Paul Ridden. Skillweb specializes in end-to-end distribution solutions focused into specialized proof of delivery and trip-scheduling solutions. All Skillweb's solutions are provided as managed software as a service.

Chris can be contacted via:  
E-mail: [chris.wright@skillweb.co.uk](mailto:chris.wright@skillweb.co.uk)  
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# SMEs and business process outsourcing

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*The efficiencies on offer by moving processes offshore are now available to smaller companies says Jeeshu Ganguly at NIIT SmartServe*

Outsourcing today has moved many levels as compared to the last couple of years. The current economic situation in the United Kingdom makes outsourcing and offshoring an even more pertinent option for small and medium companies.

The escalating cost of oil, fuelled by speculation as well as a growing demand in Asia, coupled with the credit crunch along with price increases and low sales, has put immense pressure on profitability for organizations of all sizes.

Surveys have indicated that while the global credit crunch has had a limited impact on small business finance, this is expected to increase in the months to come. This provides an opportunity for these businesses to manage their cost of sales and focus on their core functional areas.

Offshoring has always had connotations of scale and cost savings. The latter is still right up there at the top of 'Key reasons to offshore' lists, while scale may not be as important as it was earlier. This is good news for small and medium enterprises as they often do not have scale in their own businesses and hence rule out offshoring. But SMEs can still gain through offshoring by:

- reducing direct and indirect cost of sales;
- improving productivity and response times in front-, middle- and back-office functions;

- investing in resources for core activities, and letting their offshoring partner manage the non-core work;
- running a lean organization, enabling them to be more competitive in the market.

One of the first steps an organization should take is to identify possible processes or sub-processes which can be rationalized through a mix of technology and outsourcing. A number of reputable BPOs (business process outsourcing) offer this as part of their services; domain and process experts liaise closely with business leaders within the organization to identify opportunities for outsourcing and offshoring. This exercise covers all possible aspects that may impact this decision – including social and political issues.

An outside-in perspective often helps organizations take the right decision.

Traditional candidates for outsourcing have been facilities management, payroll processing etc. The past few years have seen transactional processing in the areas of finance and accounting, insurance, banking and financial services gain importance. Contact centre activities ranging around customer service and acquisition have also been steadily offshored. Niche areas like engineering design, equity research, and legal processing have also found takers in the United Kingdom.

So how can small and medium enterprises look at offshoring? Let us look at the broad components of a P&L:

1. sales;
2. cost of sales (direct cost);
3. indirect cost.

If one were to study the activities within these three areas, possible areas of partnership with offshoring companies emerge:

#### 1. Sales

- Sales and business development activity require substantial investment in a sales force with no guaranteed return on the investment. In order to derive maximum productivity out of sales force investment, an SME can use an outsourced call centre to generate leads at a fraction of the cost. The organization's sales team can be far more productive as they focus only on closing hot leads instead of cold calling.
- Another key customer facing role could be that of customer service, where standard queries and problems can be resolved. However, more evolved transactions like customer retention can be kept in-house or in the United Kingdom.
- Order taking for small catalogue companies as well as order management, including payment processing.
- Accounts receivables, including payment chasing and collections.
- Processing refunds and chargebacks.

#### 2. Cost of sales

- Transaction processing including claims and administrative tasks in insurance and mortgage companies.

- Conducting market research and surveys (quantitative and qualitative) for practically all companies dealing with business or individual consumers.
  - Clinical trials for pharmaceutical companies.
  - Contract creation and paralegal work for legal firms.
  - Fare loading and reconciliation for travel houses.
3. Indirect costs
- Finance and accounting activities covering the entire range of tasks within the purchase to pay (P2P) and order to cash (O2C) cycles.
  - HR and payroll.
  - IT support and help desk services.
  - General administration.

The fourth and wider area traversing all functions is technology outsourcing. Companies with multi-million-pound IT budgets can afford dedicated teams spread across the world. But even such companies are now trying to localize certain functions in low-cost destinations, eg research and application development in India. Smaller companies may not want to invest heavily in these areas, as the cost of application development, hardware maintenance and regular upgrades may spiral out of control. Exciting initiatives like hosted and managed services or software as an application (SaaS) are emerging where customers pay for specific transactions only. In effect, pay for only what you get and not the overheads that come with the requirement.

Once the business activity to be offshored has been identified, certain aspects need to be covered thoroughly during the transition of the process:

- corporate governance structure;
- quality assurance;
- service levels and implications;
- possible risks and mitigation strategies.

Most importantly, the expectations from the contract need to be clear. One should not expect transformational benefits in a simple contract signed due to pressure on costs.

Finally, and perhaps most importantly, is the approach the outsourcer takes to the relationship with their partner. Every offshoring relationship that has succeeded has done so because both parties wanted it to succeed and worked towards it. A hands-off approach may also work, but the probability of success reduces. Involvement does not necessarily mean hopping on a flight every month or quarter to visit your offshore partner. It means dealing with your partner in a transparent manner and working with them as an extended part of your organization, and not just another partner a few thousand miles away.

Jeeshu Ganguly is a senior business manager and head of business development at NIIT SmartServe. His experience in the BPO/call centre business spans both offshore operations and business development in the United Kingdom and he has worked across a wide range of verticals including financial services, travel, direct marketing and telecoms. Jeeshu has worked for over nine years in various divisions of the US\$500 million NIIT Group and has played a significant role in building up its business process outsourcing division over the past four years. Having worked extensively in operations and transitioning, Jeeshu has a strong understanding of the fundamental issues involved in offshoring across industry verticals. Projects currently running at NIIT SmartServe include closed books life insurance processing, FSA regulatory compliance, consumer lifestyle surveys, airline ticketing, customer service and financial services, including finance and accounting outsourcing.

Further details from NIIT SmartServe  
Tel: 01494 539 333  
E-mail: [Jeeshu.ganguly@niit-tech.co.uk](mailto:Jeeshu.ganguly@niit-tech.co.uk)



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# Managing fast growth

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# Pick the right options for growth

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*Too much for too many customers? You could lose the plot, says Andrew Horder, managing director of Business Strategy Solutions Ltd*

When seeking to grow a business, the management team will often have a number of different opportunities open to them to achieve their aim. My experience is that successful growth requires three things: a focus on specific opportunities, opportunities that are truly attractive to the individuals in the team, and a realistic assessment of the viability of the opportunities.

## The importance of focus

Let us start by looking at the science behind the need for focus. Studies estimate that the human mind is bombarded by up to two million bits of information every second. But as far back as 1956, George Miller concluded that the human mind can only deal with  $7 (\pm 2)$  chunks of information at any time – that's an average of around 134 bits, or less than 0.001 per cent of the total data available.

To be successful running even a single business, we need to be constantly aware of a number of things that can affect it – customers' needs, competitor activity, legislation, finances, and so on. That means those  $7 \pm 2$  chunks of information are pretty much taken up already, so if a business starts doing a variety of different things for a variety of different customers, then pretty soon its managers will find themselves missing important information about all of the things they are trying to do.

That is why successful businesses will always concentrate on one thing at a time, only moving on when the business is well established. For example, Microsoft achieved success in software before branching out into computer peripherals and online services, and Wal-Mart has stuck firmly to discount retailing.

But making sure a business is always focused doesn't have to mean that it can only ever do one thing; it just has to stay focused on one project at any given time. An example of serial focus is Richard Branson's Virgin Group, where the early successful music business was sold to provide funds for the next major venture, Virgin Atlantic, which was followed by other Virgin businesses like Virgin Money and Virgin Media. Each had Branson's personal focus while it was being established, and was then handed over to its own focused management team, while Branson went off to fly balloons, or to set up his next great adventure, Virgin Galactic.

## The importance of attractiveness

The science behind the need for managers to enjoy the business is rooted in a development of behaviour theory, known as the enjoyment–performance theory, which tells us simply that people will perform better if they enjoy the tasks that they have to undertake. It goes on to say that they will enjoy the tasks even more as they perform them more and get better at them, creating a virtuous circle of reinforcement. It follows from the theory that a business will perform at its greatest potential if the people running it are doing something they are interested in, and are even passionate about.

The great thing about running a business doing something you are passionate about is that it hardly feels like work at all. Confucius said: 'Choose a job you love, and you will never have to work a day in your life.' When someone is engaged in a business that they are passionate about, all the things they need to do to make it succeed are no longer chores. Many dedicated and passionate entrepreneurs go so far as to consider it their duty to make a success of their business, in order that more people can benefit from their products or services, or can join them in their passion. So they will be motivated to make the extra effort that is needed to really make it a success.

### *Levels of attractiveness*

Having observed businesses over the years, I have concluded there are three levels of attractiveness of a business: interest, passion and purpose. Each level has different characteristics in the way the enjoyment of the business is exhibited, which have a significant effect on how a business is viewed by its customers and consequently how well it does.

Where the people running the business are interested in either the activities it engages in or the outcomes it produces, then they are more likely to succeed. Just as importantly, they are likely to attract staff who share their interest, creating an environment in which business is fun, and people are happy in their work. That tends to show, and soon converts into repeat customers; aren't you more likely to return to a coffee shop if you were served with a smile?

If the business is being managed by people who are truly passionate about what they do, then the effect is magnified. Not only are they happy to go to work, they actually jump out of bed, eager to spend some more time on what they are passionate about. And because their motivation is to share their passion, they tend to be much more enthusiastic about what they do, especially when they are talking to people who are new to it – customers, for example. How often have you found yourself getting swept up in an enthusiast’s passion for what they’re offering you?

The final level, purpose, is found when the people running the business view it as their purpose in life to provide their products or services to others. In these businesses, the enjoyment goes beyond passion, to complete personal fulfilment. Instead of just leaping out of bed to go to work, they are so driven that they have to be dragged away at the end of the day. The staff that they gather around them tend to fully support the senior management team, becoming proud and highly protective of them. The team’s complete commitment and the staff’s loyal support for what they are doing shines through to their customers, and gives the whole business a strong culture of service and purpose, which customers and clients find incredibly reassuring.

To summarize the levels of attractiveness:

**Table 9.1.1** Levels of attractiveness

Level	Attitude	Staff	Customer experience
Interest	Happy to go to work	Happy in their work	Pleasant and enjoyable interactions
Passion	Leap out of bed, eager to get to work	Enthusiastic and self-developed to greater knowledge and skill	Enthused by the staff and feel well served by them
Purpose	Have to be dragged away from work	Self-developed and highly supportive of the business purpose	Complete confidence in the business’s ability and desire to deliver

## The importance of viability

It seems obvious that viability is essential to business success, but there are degrees of viability and a great number of factors that can influence it. The factors generally break down into two main types – internal factors that are mainly to do with the business itself, and external factors that relate to the market. These are covered elsewhere in much greater depth than we have time for here, but let us briefly consider some issues that can affect the success of a growth strategy.

### *Internal viability factors*

Internal viability factors are essentially the business’s resources (the things that it has, or has access to) and its capabilities (the things that it can do), and how these are combined to provide something the market needs and wants. The kinds of resources and capabilities that a business needs to make its growth strategy viable will vary

dramatically between businesses. As an example, let's compare a manufacturing business with a specialist consultancy. To grow, the manufacturer may need a bigger factory, more up-to-date machinery, better transport links or more skilled staff. A specialist consultancy, on the other hand, could quite possibly expand without increasing the size of its premises, but its IT infrastructure will need to be expanded, as new consultants increase the need for remote working.

### ***External viability factors***

The main external viability factors are those relating to the market, competitors and compliance. With external viability factors, there are some generic criteria that have to be met – access to a large enough market and a unique offering that the new market needs and wants. Beyond those, the importance of each factor varies significantly with the type of business, so I will not try to go too deeply into the topic here. Even the generic ones will have different requirements, depending on the specific business. For example, a one-man consultancy looking to grow to three partners will be viable in a much smaller niche market than would a ten-person firm looking to grow to thirty, and a top-quality electronics manufacturer will need a smaller additional market than will a maker of cheap plastic items.

## **Assessing business growth opportunities**

As I discussed in the previous section, it is not really feasible to give a generic list of criteria against which any opportunity can be assessed. Each business management team will have their own particular issues that need to be satisfied, so their criteria – and the importance put on each – will be different. This section will concentrate on the method for assessing opportunities, rather than attempting to provide a list to assess them against. The earlier discussions about enjoyment and viability will help in creating a criteria list that makes sense for a particular situation.

A favoured way to decide whether to pursue a particular business opportunity is often called a 'balanced scorecard' approach, but is more properly called multiple criteria decision analysis (MCDA). The business decides on a number of criteria against which the opportunities will be measured, and weights each criterion depending on how important it is. Then the opportunity is scored against each of the criteria, and from that a rating is calculated. The calculation of the rating can be as simple as multiplying the scores by the weights and adding them all up, or may use more complex algorithms based on market or psychological factors. An example of a simple MCDA calculation is shown below. Those opportunities with the highest rating will then go forward to a full feasibility study, including detailed market research and in-depth financial modelling.

Criteria	Time	Effort	Knowledge	Unit cost	Speed	'Fit'	Referrals	
Weight	8	10	6	3	10	10	4	Rating
Opp A	8	7	8	8	9	7	10	406
$(8 \times 8 = 64 + 7 \times 10 = 70 + 8 \times 6 = 48 + 8 \times 3 = 24 + 9 \times 10 = 90 + 7 \times 10 = 70 + 10 \times 4 = 40 = 406)$								
Opp B	7	5	9	3	9	7	8	361
Opp C	9	6	6	6	6	8	7	354

**Figure 9.1.1** Example of a simple MCDA grid

I find there is a problem with the standard MCDA approach, in that it mixes up criteria that relate to the attractiveness and viability aspects of a growth opportunity. The effect of this is that it is hard to be clear on exactly why an opportunity is scoring a good rating. For example, an opportunity that scores very high on enjoyment but is very low on viability factors could appear to be similar to one that has a low balance of both. So by putting all of the criteria on a single dimension a business risks trying to make a go of something that isn't really viable, or alternatively something that isn't really attractive.

The way I solve this issue for my own clients is to split the criteria into two dimensions: attractiveness and viability. Each dimension can then be calculated separately, using an MCDA grid for each, giving us a 2x2 matrix for assessing opportunities (see Figure 9.1.2 below). One thing managers should beware of is trying to weight criteria and score opportunities without help; using an external mentor, consultant or coach to challenge assumptions and draw out the reasons behind the scoring will generally create a much more robust and meaningful result.

Attractiveness	Hi	'Needs work' These really appeal, but in their current form they will be rather hard to make money from, so need improving	'Exciting' These are the opportunities to pursue straight away – you want to do them, and they will make money	
	Lo	'Back burner' These are neither attractive nor especially viable, so it is best to park them in favour of more attractive and/or viable opportunities	'Bread and butter' These are easy to make money from, but not really what the business wants to do. You may choose to use the income from these to develop the 'Needs work' ones	
	Lo	Viability		Hi

**Figure 9.1.2** 2x2 matrix

Armed with its matrix, a business can decide which growth opportunities to follow up, fully understanding why it is doing so. Another advantage is that management can explain to others why each opportunity is to be pursued. Be aware, though, that if the business wants to proceed with an opportunity that sits high on Attractiveness and only middling on Viability, it may find others (eg group financial controllers and bank managers) questioning the decision – they also have greater visibility of the rationale!



To sum up, when deciding which opportunities for growth a business should act on, it is important to remain focused and not try to pursue too many different opportunities at once. Because of the way the human mind works, it is important to focus on a small number of opportunities, so that those can be executed exceptionally well. It is also important that the opportunities a successful business focuses on are both attractive to it and are viable for it to implement. And finally, it is essential to separate the two, to make sure that each opportunity has a good balance of both attractiveness and viability.

Andrew Horder is managing director of Business Strategy Solutions Ltd (BSS), a consultancy specializing in strategy, focus, and key account strategy. BSS has developed a methodology, Opportunity Matrix™ ([www.opportunity-matrix.com](http://www.opportunity-matrix.com)), to help business owners and management teams to reduce confusion and decide where to focus their time, effort, money and resources for greatest effect. For further details e-mail [andrew@businessstrategysolutions.com](mailto:andrew@businessstrategysolutions.com).

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# Managing the risks to your business strategy

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*Few small businesses actually write down their strategy let alone assess the risks to achieving it. As companies grow, this can be the most common cause of business failure. Keith Baxter explains*

Strategic risks are, by definition, the risks to you not achieving your business strategy. Therefore if you fail to identify and deal with your strategic risks, you will fail as a business if the risks materialize. It's all pretty sobering stuff, but few small and growing businesses take the time to assess their exposure to strategic risk appropriately. This is even more surprising when you consider that the effort involved in doing a strategic risk assessment is relatively small while the payback can obviously be huge.

## Successful projects do not ensure success

Most businesses see risk management as a finance function. Sometimes formal risk processes are applied to significant projects or even critical business processes. This is all commendable but a project to deliver a new product to the marketplace may be delivered on time and to budget, but will be deemed a failure if the market has changed while you were designing and manufacturing, and no longer desires the product. This is a classic case of the business strategy failing owing to unidentified risks materializing and, if the new product is a major part of your business strategy, could spell disaster.

## Brainstorming threats is not the answer

Organizations that do try to consider strategic risk very often fall into the trap of just ‘brainstorming’ the potential threats. This can be a quick and relatively painless exercise but it very rarely identifies the real strategic risks to a specific business. This is because the exercise will probably look at generic threats and not consider what is truly going on in the marketplace. Alternatively, consideration may be given to many factors that would be highly unlikely to impact your specific business and so introduce too many red herrings. In addition, if stakeholders do not buy into the threats they will be very unlikely to play their role in taking action to manage or negotiate around the risks.

## Assumptions analysis – not risk analysis – is the answer

An effective process to undertake a strategic risk assessment is to start, not too surprisingly, by making sure that you have captured a suitable statement of your business strategy. This should be done by the board of directors and needs to be as specific as possible, quantified and with target dates for achieving objectives.

Next, communicate this strategy statement to at least the next two levels down in the organization, or even the whole organization if the company is still relatively small. The aim at this stage is to just get general consensus, so set short timescales for feedback and take on board any relevant points.

The directors should then break down the strategy statement into its constituent assumptions, ie the things that need to happen to ensure that the strategy is achieved. Aim for about 10–20 assumptions and ensure that you consider both internal and external factors as much as possible.

Focusing on assumptions rather than risks is the key as it allows people to think positively rather than negatively. Most people tend to feel more comfortable and open about discussing assumptions rather than risks.

## Testing strategic assumptions

The assumptions should be shown to the top-level management with whom you shared the original strategy statement, but this time you want them to rate the assumptions so that you can understand how they feel about them. The assumptions are analysed for risk using sensitivity (How sensitive are you if this assumption changes/goes wrong?) and stability (How stable/confident are you about this assumption?). The ABCD scales for sensitivity and stability are more about decision making than severity. The four-point scale is crucial, so that there is deliberately no ‘medium’ and the transition between B and C in each case leads you to either take action or not.

For each assumption a sensitivity/stability ‘scatter’ diagram is produced and there are three different types of patterns that you need to look for. In the diagrams each ellipse represents an individual’s perspective and different colours could be used to indicate different organizational groups etc.

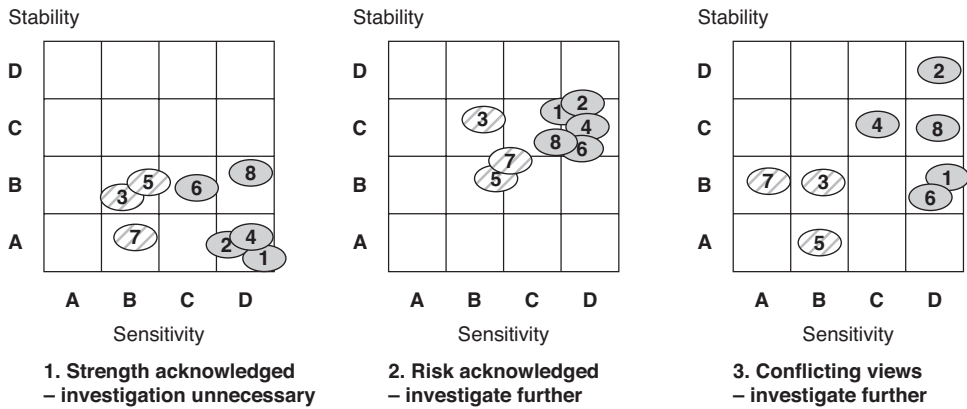


Figure 9.2.1 Strategic assumptions

## Interpreting the results and taking action

In the first case the assumption is generally considered as likely to happen and therefore this can be considered as a strength of the strategy. If all your assumptions are rated in this way, you should revisit your strategy – it’s not aggressive enough!

In the second case there is consensus that the assumption is at risk and the reasons behind this risk will require further investigation. If all your assumptions are rated in this way, your strategy is too aggressive and pursuance is likely to result in failure and demoralization.

In the third case there is little consensus and this indicates a number of factors:

- Some people think that the assumption is at risk.
- Others think that the assumption is a strength of the strategy.
- Some people don’t acknowledge that the assumption is important.

This is a very worrying result as it indicates that the organization as a whole does not share a common view regarding the achievability of the strategy or even the importance of certain parts of the strategy! Also, there is some risk here that could never have been identified by simple ‘traditional’ risk identification approaches.

For the second and third cases, further investigation will be required to identify the root cause of the risks to the assumptions. The next stage will then involve the preparation of formal risk plans, in each case, to address the cause or remove the risk by trying to stabilize the underlying assumption or de-sensitize yourself to the effects of the assumption.

## The importance of the external perspective

It should almost go without saying that the consideration of external factors is at least as important as, if not more important than, internal factors. While internal

constraints like skills, available resources etc are important, they are things that will probably be considered implicitly. However, external constraints will probably not be considered unless explicitly highlighted, eg:

- market trends for the specific product services being offered;
- competitors' likely strategy, including pricing policy changes;
- socio-political shifts that may impact your business;
- macro- and micro-economic trends;
- global crises such as oil price rises or pandemics.

It is here where an external perspective can be extremely valuable. This might be achieved by the use of a non-executive director (or similar board representation) but the targeted use of a management consultant who specializes in your market could be the crucial difference between the analysis success and failure and therefore between your business success and failure! The external input will be required when formulating the assumptions and you will also want them to rate the assumptions to capture their perspective.

Once the analysis has been completed it should be revisited on a periodic basis (eg quarterly) as both the internal and external risks will change, both positively and negatively.

## Risk escalation

To complete the strategic risk picture, and to make it usable on an ongoing basis, you will need to include some mechanism for escalating risks from your key projects and your ongoing operational processes that may have strategic implications. Care is required to keep this appropriate or the board may get swamped and 'not be able to see the wood for the trees'. Only the project/operational risks that have a potential impact on the business strategy, or risks that require board intervention, should be escalated. Everything else should be identified and managed at lower levels in the organization.

Of course, the other extreme here is that nothing gets escalated as teams are worried about the negative implications of revealing their risks. The answer is to use assumptions analysis in your projects and operations as well, but that's another story....

Keith Baxter is an internationally acknowledged expert in enterprise risk management and director of De-Risk. De-Risk offers a full range of risk solutions covering the full enterprise risk catalogue of strategic, programme, project and operational risk management, all using the ABCD process. De-Risk also offers the Assure Enterprise Risk Management toolkit in association with soft-

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Keith can be contacted at De-Risk:  
Tel: 01252 734222  
E-mail: [kbaxter@de-risk.com](mailto:kbaxter@de-risk.com)  
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# Professional quality

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*To keep your promises to customers and to manage your risks, you have to build a joined-up organization. Michael Debenham, executive director policy and professional affairs at the CQI, reviews the integral role of quality in building a system that delivers*

You run an organization with a multitude of functions, staff, suppliers and partners all aiming to provide your customer with what they want, when they want it. To do this requires a joined-up approach focused on the customer and managing risks presented by factors such as regulation, product or service failure, and competition. This is where quality and the chartered quality professional comes in.

Quality has come a long way during the past 20 years and now encompasses a wide range of core activities essential to the survival and growth of business. During that time, many organizations have made the mistake of proclaiming that ‘quality is everyone’s business’, but not ensuring that they have the competence to deploy it. It’s like saying that HR is everyone’s business, but not training managers in the basics and not having an HR professional there to facilitate the process.

If you run a small or medium-sized business, it is likely that you – the CEO, supported by some kind of external expertise – will be responsible for quality. If you run a large organization, having a competent chartered quality professional is what you need. However you work, you need to know that your business system works and delivers.

This year sees the launch of the chartered quality professional qualification and it is reasonable for businesses to ask what difference it will make to their fortunes. Let us look at the questions that executives can put to determine whether quality is adding appropriate value to their organization.

## Customer focus

It has now become widely accepted that:

- the customer is central not only to our business but to the future success of our business;
- retaining existing customers is cheaper and easier than acquiring new ones;
- one dissatisfied customer will do more harm to an organization than the good created by ten satisfied customers.

But this is much more than customer satisfaction: it is about customer focus in everything that the organization does. Making sure that internal and outsourced functions are aware of their internal suppliers and customers, and how their work impacts on external customers, is vital if you are to really achieve customer satisfaction. The key to getting this right is measurement, and the quality professional can turn the monitoring and measurement of customer satisfaction into a vital data asset to form a key input into the process of business improvement.

More challenging than the technical competences are skills required to facilitate this customer-focused approach between internal functions, with suppliers and with partners: persuasion, education, diplomacy and the total support of top management are key.

You also want to see your quality professional plugged into your marketing function as customer focus also allows your organization to identify your customers' future needs, those requirements that the customer may well not yet be aware of, but if discovered can provide that key information to enable you to stay one product ahead of the competition.

## Management of risk

Quality and risk can be seen as opposite ends of the same stick. An organization that does not understand risk and has not identified those key risks to delivering the required levels of product and service quality at the right cost is not destined to survive.

Business risks are not, of course, simply confined to natural disasters, chemical explosions and occupation health and safety issues. They also include a wide-ranging series of threats such as unwarranted media attention, industrial action, unwelcome legislation, currency value changes, insurrection, trade barriers, products liability, hostile takeover bids, aggressive competitors, new competitors, new products, and as many more as can be brainstormed. The list may be more or less endless. What is important in all of these cases is that your business system identifies all of the possible risks confronting the organization, and determines their probability of occurrence, the consequences of occurrence and actions to take for prevention or risk reduction.

Many businesses now develop registers of risk but they include so many risks that top management cannot keep their eye on the few essential risks that are business critical. An effective approach to highlighting the current key risks that top management need to monitor is another key to survival.

## **Corporate care and responsibility**

Organizations are now faced with the need to address the issues associated with social responsibility and are turning to their quality professionals for support to embed CSR policy into their business systems.

The quality professional has the competence to support the development of value sets, policies and codes of conduct; identify stakeholders; run stakeholder engagement programmes; establish objectives and targets; convert principles into practice; establish methods for monitoring and measuring performance, a process for performance review and reporting, and the identification and review of impacts.

## **Business improvement**

Improvement, in an increasingly competitive world, is a prerequisite, but does not happen by accident. The quality professional brings a systematic approach to improvement using specific tools to measure, review and change the ways things are done. These tools range from Six Sigma to Kaizen, but the key is to have someone competent to know which tools are best for your organization and who is able to demonstrate the outcome of implemented improvement activities in terms of risk management, customer satisfaction and the bottom line.

## **Business direction and product development**

Organizations are now turning to their quality professionals to help develop their vision, mission, targets and the plans to achieve them using the appropriate quality tools for the task. Quality professionals are also involved in product development, helping to establish the appropriate quality standards for new products and services and evaluating the impact of these decisions on development and production costs through effective quality planning.

## **Change management**

Few, if any, successful businesses remain free from the need to change their product lines, their management system, their processes or simply their venues. Change is almost always resisted and needs to be carefully managed. It is no longer sufficient for the quality professional simply to be an outstanding technician – he or she must also be a competent change agent or project manager. The quality professional has to be able to support the organization through the structured process of defining the drivers for change; creating and sharing the vision for change; selecting and motivating champions for change; identifying and mentoring the resistance; implementing the change and then assessing the effectiveness of change and making any necessary adjustments.

## Business system analysis and design

Fundamental to the success of every thriving business is an effective management system and efficient processes that deliver their range of products and services. The quality professional has to be able to support process owners in designing their processes, taking them through the structured task of specifying, defining and then mapping processes. Helping the organization to identify the risks associated with each stage of the process and putting in place the appropriate controls to manage these risks is a key part of every quality professional's role.

### In conclusion

From all of this we can develop a list of questions that senior management should expect their quality professional to be able to answer:

- Convince me that we have a business system that:
  - ensures that our business aims and goals are achieved;
  - provides assurance of product and service quality;
  - manages our exposure to risk;
  - addresses our approach to CSR.
- Convince me that we have systems that ensure we learn from our customers' and stakeholders' feedback, our internal controls, and that these systems are delivering measurable improvements to our processes, products and services.
- Tell me what business improvement tools we are using and convince me that appropriate measurable improvements are being generated in terms of:
  - reduced cost;
  - improved efficiency of our processes;
  - increased customer satisfaction.
- Convince me that we manage change effectively.
- Convince me that our people are trained and competent in quality to the levels essential for the efficient running and improvement of our business processes.

If we can answer all these questions positively then we have the foundation to sustain our businesses well into the 21st century.

Mike Debenham, CEng FCQI, is the CQI's Executive Director Policy and Professional Affairs. He is the focal point for all professional and technical matters within the institute and in the exchange of ideas and issues ([mdebenham@thecqi.org](mailto:mdebenham@thecqi.org)).

For general enquiries contact: Vince Desmond, Executive Director Business Development ([vdesmond@thecqi.org](mailto:vdesmond@thecqi.org)).

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**Pcubed's** solution to this is to assist clients in creating effective program delivery structures – shaping the program itself – and to ensure that the delivery processes are robust enough for the task in hand. This pragmatic approach is combined with 'hands-on' delivery and coaching or mentoring staff to ensure success.

## Project Portfolio Management

Whilst the large and complex programs claim much of the attention, the reality is that, at any one time, organisations have many projects to manage. Managing such a portfolio of projects is always a challenge.

**Pcubed's** solution to this challenge is to apply standard and consistent project management tools and processes in a practical and sustainable way to improve delivery performance, reduce costs, manage resources more effectively and gain better management control at all levels. This builds capability into your organisation for both immediate and long term benefits.

So, whether your issues with your current projects are to do with getting the most out of IT, collaborating and using resources more efficiently across your organisation, financial control or deciding which projects are worthwhile, managing your portfolio effectively is essential.

## Project & Program Staffing

Mobilising your organisation to meet the demands of a large program or a number of projects is a time-consuming and costly affair. Competition for key skills is fierce and you need people that are capable, experienced and committed to achieving your objectives. Permanent staff increases your cost base and contractors are of variable quality and commitment.

**Pcubed's** solution to this problem is simple. We provide staff with the key skills that you need backed not only by their own experience but also by the **Pcubed** organisation. Our staff are rigorously selected and come with the assurance that they are employed and managed by Pcubed, supported by all of the resources within **Pcubed** and dedicated to making your project a success. Whatever your needs, you always need the assurance that your resources can rise to the challenge of your project. **Pcubed** delivers this.

## Solutions That Deliver

**Pcubed** offers solutions to your most pressing problems through the right combination of people, processes and tools with an emphasis on the practical and realistic – delivering results, not theory or dogma. Our approach has been forged out of working with more than 500 of the world's most successful organisations across industries and the public sectors.

**Your success lies in our experience.**

# Making the right choices

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*Use portfolio management to match the hotbed of innovation to the engine of delivery. Ky Nichol and Martin Wolf at Pcubed explain*

Management is doing things right; leadership is doing the right things.

(Peter Drucker)

In our fast-paced business world, choosing the right things to do and doing them in the right order is what distinguishes leading organizations from followers. When it comes to deciding on the programmes and projects to deliver your next strategy, portfolio management provides organizations with the capabilities to make the right selection.

## What is portfolio management?

Portfolio management has been emerging as a new discipline building on project and programme management over the past decade. And as with any new concept that we are confronted with, we ask ourselves: is it something new or just an existing concept repackaged? In its simplest terms portfolio management is a process for coordinating successful delivery of programmes and projects. It helps us achieve this through an approach to evaluating what projects should be launched based on what the organization needs. It also helps us evaluate projects in flight and steer them to deliver the benefits we launched them to deliver:

- **Defining projects:** Projects must be properly defined to have a chance of being launched and will then compete against each other for the ever-present constraint of corporate resources.

- **Launching projects:** Projects are not launched on a ‘who shouts loudest’ basis, but are the result of an objective check against what the organization needs.
- **Steering projects:** Current projects are scrutinized for their capability to deliver the benefits and needs of the organization. Where gaps are detected, change projects are launched and unnecessary projects are halted.
- **Ending projects:** Projects are not finalized once their main products are delivered. They are finished when the change they were meant to support has been implemented. Portfolio management ensures that we focus on the long-term outcomes of our initiatives and not short-term outputs.

Through this common-sense approach portfolio management helps us to coordinate the delivery of our strategies through projects.

## Implementation accelerators

Whenever we attempt to implement new concepts in our organizations we need a good case for getting to some benefits quickly simply because we know our organizations are weary of constant change.

The good news is that in many cases portfolio management is a quickly learnt capability. First, it is based on the principles of project management which is an already present foundation in many organizations; second, there are some key organizational functions that make its implementation quicker and easier.

We find that portfolio management is most successfully implemented where the change focuses on three key groups:

- **The programme office (PMO):** the pool of specialist resources that monitors the progress of individual programmes and process. This catalyst for project and programme success is readily configured to support the good practices of portfolio management. The PMO links many areas of the organization, and once investment in portfolio management takes place the PMO can accelerate its successful implementation. The PMO as portfolio management coach helps the project managers adopt new processes rather than it coming across as an additional burden. If your organization does not employ a PMO it may be time to consider putting one in place. This central function is the engine room of delivery success through providing informed prioritization of tasks and projects and evaluation on what to put right and what to stop.
- **The customer:** the people who have to take the output of the project and put it into operation to realize some benefit need to become actively engaged stakeholders in your portfolio management environment. Ensure that your business representatives are involved in key decisions throughout the project’s life cycle. Assure yourself that they will accept the product, are prepared to receive it and are ready to gain business value from it.
- **The project manager (PM):** avoid burdening the people in the hot seat of delivery. Provide them with effective PMO support and the vision that portfolio management will keep them working on projects that are critical to the success of the



business. Through removing ‘administrivia’ and rework the PM will begin to see the benefit in providing better project definition and reporting visibility.

## Approach

Portfolio management is never a greenfield implementation: most organizations have some projects under way, so how do you put this in place without losing momentum? The most pragmatic approach to getting benefit from this technique whilst operating on an in-flight portfolio is based on a) evaluating what is worth doing, b) how easy it is to do and, on that basis, c) understanding what to do first.

## Building the yardstick

Before looking at the projects we must look at the benchmarks we will use to evaluate them. Are these pieces of information readily available to measure projects against?

- What is our organization seeking to become?
- What are we trying to accomplish for our stakeholders?
- What key decisions have we made to help our organization reach its strategic goals and objectives?
- How have we organized ourselves to achieve strategic advantage?
- How do we want to create value?
- How will we measure success?

Many projects fail to deliver success because there is no easily describable organizational strategy in place to which to align project scope.

## What does good look like?

How do we tell if a project is worth doing? Some basic steps here can lead to dramatic improvements as we move away from subjective investment decisions to an objective continuous process of selection and culling. Can you readily evaluate your projects against the following checklist?

- Is the business value clearly described, quantified and tangible where possible?
- What benefits will it deliver and are these in demand?
- Does it have the support of the organization?
- Are there any major risks or potential dis-benefits?
- Are key stakeholders confident that the end products, timescale and budget are achievable and adequate to deliver the value it claims?
- Are dependencies clearly understood and described?
- Is the value created comparable for all parties involved or are there conflicting priorities?

This is not about creating huge documents and reports slowing everyone down. The answers to the above questions should be facilitated through a short, crisp and to-the-point business case. Whenever business cases conjure up all kinds of secondary benefits and verbose explanations, it is an indication that the outcome is not assured. Only projects with a clear remit to deliver their value can afford concise cases. It is these initiatives we want to invest in, as they are most likely to succeed. All other projects should be reevaluated, certainly modified, most likely even discarded.

## Can we do it?

Once we have an idea of those projects that could deliver the maximum value to our organization, we then have to look at how easily they can be achieved. Many of the most lucrative and exciting programmes have still failed as their organization was not capable of implementing them properly.

In contrast to the business value of programmes, which is very specific to any organization, there are some very common themes that forecast the possible delivery success of a project. These themes can be summarized in some key things to check:

- Is the scope clearly understood?
- What are the milestones where progress will be measured?
- Is there a schedule? Is it realistic?
- Is it a growth or maintenance project?
- Have we/anyone done this type of project before?
- Have risks been identified and are they being managed?
- Have assurance measures been put in place?
- What levels of contingency have been allocated and on what basis?
- Are the required skills and resources available to deliver the project?
- Is everyone clear on accountability and are management controls in place?

The most successful organizations invest only in initiatives that both add value and are readily deliverable.

## Making it happen

It would be fantastic if all our excellent ideas and achievable ideas could be implemented in parallel. The reality is that we have tight budgetary and resource constraints and we have to develop a priority. The method is individual to each organization but it has three major components in common:

- **Prioritizing:** Programmes and projects should be prioritized based on their business case, outlining their strategic fit, achievability, affordability, benefits, and their contribution to meeting strategic targets and business imperatives.
- **De-prioritizing:** Initiatives should be de-prioritized based on their need for bespoke external dependencies or critical resources. Those with unclear

objectives, high degrees of risk, lack of sponsorship, among others, should be scored appropriately to take account of these unpalatable features.

- **Tuning:** To make sure this process does not result in a set of 'keeping the lights on', low-risk, low-benefit initiatives, the evaluation must be tuned to match the organization's appetite for risk and growth.

Getting this right puts in place the right aspirations backed up with the capability to deliver.

## Beating the odds

In fast-changing organizations the problem is often one of selecting what not to do. We are rarely short of project ideas but often in need of delivering something productive. Good portfolio management puts in place some common-sense techniques to maintain the hotbed of innovation together with the engine of delivery. The steps outlined above serve to kick-start this process to readily establish the right things to do and in what priority. Rapidly invest in the right bets for your future success rather than gambling against the odds.

Ky Nichol is a managing consultant and Martin Wolf a principal consultant at the multi-award-winning Program Planning Professionals Ltd (Pcubed). Pcubed works with most of the world's leading organizations, particularly in the manufacturing, financial services and public sector areas, ensuring that their most complex projects, programmes and portfolios are delivered successfully.

Tel: 020 7462 0100

E-mail: [ukinfo@pcubed.com](mailto:ukinfo@pcubed.com)

[www.pcubed.com](http://www.pcubed.com)

# Project risk management – positively useless?

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*Growing businesses must initiate and manage efficient projects to change their processes, IT and launch new products. However, as projects get larger and more complex, their failure rates go up exponentially. Is formal project risk management the answer? Perhaps, says Keith Baxter*

When an organization is relatively small, things tend to get done with little fuss. As organizations get a little bigger, the concept of the ‘project’ is introduced and, at this stage, they are generally successful. As organizations get bigger still, the projects get larger, and more complex, and this is when things tend to go wrong – projects finish late and/or go over budget and often fail to meet their original objectives. Why is this?

At a fundamental level, it all comes down to communication – or the lack of it. Simple projects are done by small teams, very often collocated in the same office. When they need to communicate they do so verbally and face to face. The communication is understood and the understanding is confirmed. However, as projects get larger, the teams get larger and before long it becomes very easy for plans to be misread, e-mails to be misunderstood and the perspective on the objectives to be different between individuals on the project team, and associated stakeholders. In fact these problems start to emerge in surprisingly small projects and anything with a combined team and stakeholder group of more than about 10 people can easily go off the rails in this way. So if communication is the issue, how do we go about improving communication in an age of information overload?

## Why doesn't traditional risk management work?

Most project management thinking would advocate the introduction of some form of formal risk management process for any significant project. 'Traditional' approaches to project risk management are based on identifying risks, perhaps through some form of workshop; adding impact and probability ratings, either qualitatively or quantitatively, and multiplying these together to come up with a risk exposure which then allows prioritization and action. It all sounds good in theory but, in practice, there are likely to be significant problems with this approach:

- Projects are all about achieving objectives by set timescales, ie positive ventures. Risk is a *negative* entity so to get people to think and talk openly about their risks can be a challenge, to say the least. This can create a fundamental barrier to risk identification and therefore can undermine the whole risk management process.
- There is a tendency for people to focus on today's problems or 'issues' rather than tomorrow's risks. This results in issue management (reactive) rather than risk management (proactive).
- Risk statements are captured which are too generic to communicate the real concerns (eg 'insufficient resources') and therefore cause confusion and no insight to guide risk planning. At the opposite end of the scale, some risk statements may resemble essays and therefore never get read.
- Quantitative analysis is often based on wild numerical guesses and leads to incorrect prioritization and inappropriate action.
- Qualitative analysis is often based on high medium low (HML)-type scales, which leads to most risks being rated as 'medium' risk exposure and incorrect prioritization.
- The risk analysis results in very little real action other than work that was already planned and therefore the process is not valued by the team. The actions required to manage the risks are not clear and therefore not followed through.

Traditional risk management approaches can be made to work but the administrative overhead involved in watching out for the above problems tends to mean that, at best, the benefits are not justified by the cost and effort.

## What can be done to make risk management work?

If we accept that the basic problem is communication, we must place this at the core of our approach. However, we must also remember that we must not overload stakeholders with information, so efficiency is also a key factor.

First, we should write down our project objectives and communicate with the team and all stakeholders. If they disagree with anything in the objective statement you will soon know! The objectives should be stated as specifically as possible in terms of functionality, timescales and budget (if appropriate) but should still be no more than a few bullet points.

Next, we should build plans that meet the objectives, irrespective of their perceived ‘do-ability’. It’s very important that the assessment of do-ability is done separately and this is done by capturing and analysing the underlying assumptions for risk. This ‘assumption analysis’ is a core part of the ‘ABCD Enterprise Risk Management’ process.

## Why assumption analysis works

The ABCD assumption analysis process was developed in the early 1990s as an integrated risk management process that directly addresses the weakness seen in traditional risk management process, as described above. The main strengths of the process are:

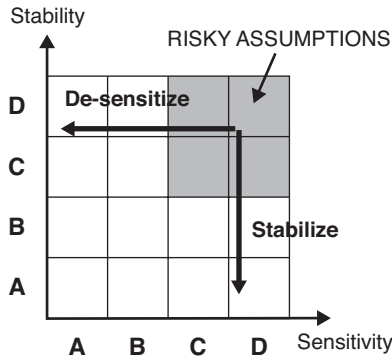
- Assumptions allow people to think *positively* (what needs to happen?) rather than negatively (what may go wrong?). Therefore, people tend to communicate their assumptions more openly than their risks.
- Plans consist of facts and assumptions and a lot more of the latter than the former. By capturing the key assumptions that knit the plans together, along with assumptions made about external constraints and interdependencies, a complete and consistent analysis of the risks is easily conducted. Also the analysis is focused on the plans and therefore the risks are always relevant to the specific project.
- Assumptions are naturally future focused – you cannot make assumptions about things that have already happened and therefore the focus stays on risks rather than issues.
- The root cause of any risk is in the underlying assumption(s). If we can deal with the root cause rather than the impact we can normally fix things more easily and cheaply at source rather than spending a small fortune clearing up the mess.

The assumptions are analysed for risk using sensitivity (How sensitive are you if this assumption changes/goes wrong?) and stability (How stable/confident are you about this assumption?). The ABCD scales for sensitivity and stability are more about decision making than severity. The four-point scale is crucial so that there is deliberately no ‘medium’ and the transition between B and C in each case leads you to either take action or not. Assumptions that are rated as CC or above are considered to be at risk and these must have formal risk plans to bring them under control.

Risk plans should have only one of two objectives: stabilize the assumptions, ie take action that will increase confidence that the assumption will happen, or de-sensitize yourself against the effects of the assumption, ie do things differently. This focus ensures that the most efficient risk plan is selected and the minimum budget is spent managing the risk.

## Assumption analysis in practice

Since its conception in the early 1990s, ABCD assumption analysis has been used on thousands of projects worldwide. These range from relatively small projects that



**Figure 9.5.1** Assumption analysis

would yield approximately 30 key assumptions to analyse and manage, to some of the largest change programmes in the world which require the tracking of thousands of assumptions. The hierarchical rules in ABCD mean that ABCD can be scaled easily to accommodate programmes of any size. This means that the traditional problem of information overload, where large programmes result in too many risks being escalated to senior management, are controlled naturally in ABCD and you can always ‘see the wood for the trees’.

So by focusing on assumptions rather than risks you should identify the real risks to your projects quickly and efficiently. By managing these risks you will have the confidence that your projects will always deliver on time, to budget and meet their critical objectives – as long as you have first assessed the risk to your business strategy of course, but that’s another story....

Keith Baxter is an internationally acknowledged expert in enterprise risk management and director of De-Risk. De-Risk offers a full range of risk solutions covering the full enterprise risk catalogue of strategic, programme, project and operational risk management, all using the ABCD process. De-Risk also offers the Assure Enterprise Risk Management toolkit in association with software partners SofTools. Assure automates the ABCD process to minimize administration, provide management visibility and automatically prompt risk follow-up actions.

Keith can be contacted at De-Risk:  
 Tel: 01252 734222  
 E-mail: kbaxter@de-risk.com  
 www.de-risk.com

# Five simple tips for buying the right insurance

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*Making sure you have the most suitable insurance policy for your business can save money in the long run, says Chris Slater at Simply Business*

Getting an insurance policy for your business is easy, but getting the right insurance cover is not always so simple.

So, here is the Simply Business guide to buying a business insurance policy.

## 1 Tailor the insurance to your trade or business type

Business insurance can be quite complex because of the sheer number of different trades, professions and industries it has to cover. As a result, it is broken down into a number of different types of cover that can be mixed and matched to create a tailored business policy.

You can choose from covers including public liability insurance, employers' liability insurance, professional indemnity cover, stock cover, tools cover, office contents cover, cash cover, business interruption cover, commercial vehicle cover and more.

Take some time to find out about each insurance cover and how it might benefit your business. This way you also won't end up paying for insurance you don't need.



## 2 Cover all the legal and professional requirements

Employers' liability insurance is legally required to be taken by all businesses that employ staff. This means that even if you employ one staff member on a part-time basis you must take out the insurance cover for a minimum of £5 million.

Other insurance covers, while not legally required, are often requirements of a client awarding a contract to a business. For example, a construction firm would probably ask that a building contractor have a current public liability insurance policy for a certain amount of cover in order to give them the contract.

This is also often the case with entertainment professions, such as event organizers, marquee hirers, DJs and children's entertainers.

## 3 Read the policy documents carefully

When you buy insurance the policy documentation can be quite long and, dare we say, boring to read. This often results in people not knowing which situations they are and aren't covered for until they need to make a claim.

Our top tip is to always double check with the insurance provider what the exclusions are on a policy (ie which things you won't be covered for) and think about any unusual circumstances you may have in your business that might not be covered. Then read the policy documents carefully, including the part about how to claim.

## 4 Don't be afraid to ask questions

As a business person you aren't expected to know the ins and outs of the insurance that is needed for your particular trade. This is the job of the insurer or the broker. So don't be afraid to ask questions.

If you are requesting quotes online, see if they have a call centre where you can run through your quotes over the phone. Any good provider should be happy to help and have staff who are knowledgeable about your business needs.

## 5 Go for the more detailed online quote forms

These days you really can get a quote online in seconds – whether through an insurer's own website or via a comparison site. But can you really be confident that you will get the exact policy you need by giving such a limited amount of information?

Our tip is to spend an extra couple of minutes on a comparison site that asks a few more questions about your business. Doing so will ensure that your quotes are more tailored, accurate, and it will save you time and hassle in the long run.

Simply Business offers a choice of tailored quotes from leading insurers, which are based on the more detailed forms our customers complete. This allows them to buy their chosen policy online (or over the phone) quickly and with confidence.

Simply Business is the flagship brand of Xbridge Limited, the United Kingdom's leading broker for finance and insurance specializing in owner-managed businesses.

Simply Business interacts online with over 1.5 million owner-managed businesses every year, providing instant online quotes for business insurance, cash-flow solutions, mortgages and much more.

Our customer sales consultants assist over 15,000 owner-managers every month and help them to compare and decide the finance or insurance cover most appropriate for their business.

Further details: 020 7920 8000.

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# **International expansion**

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# Managing the challenges of international growth

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*International expansion demands a shift in strategic thinking, says Stan Paliwoda, Department of Marketing, University of Strathclyde*

International expansion can usually be explained as a strategy for profits or for growth. Internationalization requires an investment both in senior management time and in resources. It is not a decision that can be taken lightly but requires a strategic shift in corporate thinking. Increasingly, it requires innovative thinking. In terms of resources, it means that a high proportion of your best people will be attached to a company expansion project that, at best, will only be producing profits at some future date. Management, especially senior management, therefore has to retain objectivity when dealing with specially favoured projects. The failure to do so invites costly failure.

Corporate expansion and particularly international expansion brings in its wake both new opportunities and new levels of risk. There is, as before, political risk, economic risk, commercial risk and of course exposure to unknown taxes and legislation relating to company incorporation. Someone, though, has to make a decision based upon the best available information, so subjectivity now enters into the frame in the form of perceived risk. Who then is to make the decision and on what basis? Turning data into useful information is in itself a skill but to then act upon this new information and implement and operationalize it is a step yet farther.

Globalization of markets and of industries has brought with it technological advances in communication that have created what has been called the 'global

village', where information has become a universal commodity, whose cost lies not in the ability to be able to afford it but in the ability to analyse it and implement it.

The first challenge is the same as for all companies that seek to compete in a market: it is necessary both to minimize cost and to provide customer value. Cost minimization will not, on its own, ever win customers, but customers will tolerate visible cost minimization provided that all other aspects of the market offering meet their requirements. There are few market opportunities available today which are simply met by making your product available. Market presence alone or time spent within an industry or country market does not mean that any actual corporate learning has taken place. It can be an entirely passive experience, perhaps like the onset of age which just happens to people. Companies, instead, have to realize that they have to be actively competing in markets and against local competitors who have the advantage of knowing their own country, their industry and have their own networks. The market offering then has to be competitive in terms of product specification and service levels. Many interpret this wrongly as requiring a focus on low price, whereas a focus on product specification and service delivery would enable a company not only to compete but to charge a premium. Competition in world markets today is more concentrated and more dynamic and any corporate changes to the market offering, including product or price changes, can be quickly picked up by the competition thanks to the communications tools of the global village. Companies have to constantly monitor market activity and be able to respond to competitor actions. Do you then have the right people on the ground overseas? Sales people are often good at being able to persuade customers and communicate the messages that they have been paid to deliver but they are not particularly good listeners. Many things therefore stand in the way of good two-way communication. Market research is slow and expensive and attaching more senior management time to an overseas market is not without cost either.

How often are results interpreted by what management thinks to be the case but is never actually verified by asking customers what they think? The availability of more research and of more information, combined with more and better technology, including communications technology, means that customers today are more sophisticated than the generations that went before. Knowledgeable customers mean more demanding customers. At the same time, you also have to be culturally sensitive in terms of product promotion and positioning.

Economic integration such as the continued expansion of the European Union presents yet another challenge, as it affords opportunities for large firms to become even larger. Tesco has been brilliantly successful in many of these markets which previously belonged to Eastern Europe and were for so long under the shadow of Russia. Strategic alliances have been very effective here as a way in which companies of different size can enter a market with a local partner able both to shoulder costs and to provide market information. Competitive pressures are forcing companies to take greater hold and ownership of their core product and ensure that it is seen as being a unique brand rather than a generic product. Everywhere that there is value to be found, brands are replacing products, and the instances where national products have held out against local products are few and usually in low-value sectors

unless there has been governmental interference. Nevertheless, the time taken to get a product (or brand) to market is fast reducing. The demonstration effect means, for example, that eager consumers become immediately aware of the latest consumer electronics being shown at international trade fairs and exhibitions and demand starts to grow before supply becomes available. This in turn creates an opportunity for counterfeiting and for parallel exports and imports (also known as grey markets). While counterfeiting is illegal, the parallel exporting and importing of branded goods is legal, with the exception that goods may be freely sold and distributed within EU borders but it is illegal to import branded goods from outside the EU for resale within it.

Meanwhile, the costs of protecting industrial property rights such as the brand name and all that may be normally associated with it, including colour, font, logo and even music, are significant. Protection is available but it takes time and it requires a great deal of money. These costs have to be passed on to the final consumer in higher prices. This then creates a further opportunity for the counterfeiter. Counterfeiting is an issue that divides the public, who only really worry about counterfeiting when it poses a risk to the safety or health or even the lives of the public. By this token, Rolex watches and counterfeit DVDs are seen as being innocuous, whereas counterfeit aircraft parts, counterfeit heart pacemakers and counterfeit drugs are most certainly not. This last point emphasizes the importance of good market information as to what currently is being made available for sale and on what terms and on the legal environment as well as on market size and growth potential. However, with regard to regulation, two important things seem to be happening. First, deregulation continues to be witnessed across the world, still spreading ever since the days of Margaret Thatcher. The other important thing to notice is that individual nation states lack the power and authority to deal with the large global corporations, but as nations join together in economic blocs the trend is moving in the opposite direction and the EU is now a formidable force able to counter anti-competitive behaviour, as may be discovered from a closer reading of judgments against Microsoft, for example.

In the same way, changes in technology or better industry practices reach all other nations as well. Logistics and supply chain management has been a major competitive advantage for Wal-Mart and many have now sought to copy its example. Wal-Mart is an excellent example of logistical and supply chain management at its best, curbing costs and in fact minimizing distribution costs while the company seeks to offer value to the customer. The customer is better educated than before because he or she has information at his or her fingertips, so price sensitivity is an issue together with the nature of the value offering being presented. In times gone by, the consumer would study perhaps the country of origin so as to help evaluate an unknown product or brand. These days, with the increased incidence of offshoring and outsourcing, we have to deal with more than country of origin – country of manufacture, country of design and even country of assembly. All will have a bearing on consumer acceptance of a branded product.

We live in a global village where we are all affected by the same trade winds. What may have begun as a US problem with the sub-prime mortgage market has ballooned into a global credit crunch. Trade, technology and globalization have come together



to create an interdependence today. We now face a time when internationalization will be questioned, when strategic alliances will be tested, and yet a very fixed mentality is still in place which will seek to retrench and to cut all expenditure in areas such as marketing and training, the two areas on which we must depend for industry to revitalize and rebound.

Professor Stanley J Paliwoda is Professor and Deputy Head of Department of Marketing, University of Strathclyde, Glasgow. He joined the University in 2004. His two previous professorial chair appointments included the University of Birmingham (1999–2004) and the University of Calgary, Canada (1990–9). Prior to this, he lectured for 10 years at the Department of Management Sciences, UMIST, now subsumed within the Manchester Business School. He was listed as one of the Top 50 Gurus who have influenced the Future of Marketing, *Marketing Business*, December 2003, pp12–16. He is a Fellow of the Chartered Institute of Marketing, the Chartered Management Institute, the Higher Education Academy and the Royal Society for the Arts. He is listed in *Who's Who in the World*; *Who's Who in International Business and Research* and *Who's Who in Business Higher Education*. His research interests are in strategic alliances related to marketing and with a significant cultural element. The transferability of Western management models to countries of lesser development and different political regimes remains an abiding interest while global forces increasingly drive towards a pattern of standardization of production and consumption.

# The export challenge

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*As a growth enterprise, you will want to start winning work away from home, but you have to be ready for the complications of making and fulfilling international sales, says Jim Sherlock*

Whoever said ‘exporting is fun’ had obviously never actually done any. There are many words that might describe exporting but ‘fun’ would not be the most obvious one. ‘Frustrating’ would be in there somewhere, as would ‘complicated’, ‘confusing’, ‘unpredictable’ even ‘infuriating’.

But talk to experienced exporters and you will also hear words like ‘fascinating’, ‘absorbing’, ‘exciting’, and most importantly, ‘rewarding’. The fact is that exporting provides an incredible diversity of functions and environments which balances the good with the bad and makes it an incredibly worthwhile experience for all those involved.

However, the unfortunate fact is that many companies entering into the export trade are not properly prepared and will only ever experience the bad side. Add to this the more typical situation in modern trade, which is that most exporters are also importers and, therefore, international traders rather than simply exporters, and this can generate even more problems.

If we are to get to the rewarding parts, both in a personal as well as a commercial sense, then we have to accept that there is an enormous range of pitfalls for the unwary and our job is to prepare ourselves and our companies so that we enter overseas markets in full knowledge of what to expect – and ready to handle it.

First, we have to accept that overseas markets will inevitably be different from our home market, and it is not just that they speak a foreign language. Good research can reveal a myriad of political, legal, economic, technological, social and cultural differ-

ences. These have to be considered when we are deciding what we are going to sell and how we will sell it.

Then, when we are successful in getting the orders, we are faced with the complex and detailed procedures concerned with getting the goods or services delivered and, most importantly, getting paid.

So what sort of questions would an exporter have to answer before entering an overseas market?

- Do I have the commitment of the whole company to a long-term development of overseas markets?
- Do I have the administrative and financial resources to conduct an efficient operation?
- Do the current staff have the expertise to market our goods and services successfully overseas and collect payment?
- Can I find appropriate support from my bank, government services and freight forwarders?
- Which markets offer me the greatest potential at the minimum risk?
- What modifications will be needed to make my product/service saleable there?
- What price is the buyer prepared to pay and on what basis (ex-works or delivered)?
- Do I need an agent or a distributor and if so, how do I find one?
- How do I promote my products effectively?
- Are there any Customs barriers that I need to consider?
- How do I cover the risks of theft and damage to my goods in transit?
- How do I make sure that I get my money?

The answers are not always so obvious and will be different from one market to another. However, good research and the use of the many sources of information and advice available both in the United Kingdom and overseas will provide many answers.

Specifically, you should first contact your Local Business Link – [www.businesslink.gov.uk/internationaltrade](http://www.businesslink.gov.uk/internationaltrade) – and talk to an international trade adviser (ITA) who can offer help in almost every aspect of your export planning and direct you to other sources of help and information. Foremost in providing that help is the employer of the ITAs, UK Trade & Investment, who are the export trade development section of BERR (previously the DTI). They have an excellent website ([www.uktradeinvest.gov.uk](http://www.uktradeinvest.gov.uk)) full of vital information and links to your local ITAs and other useful sites. It may be that as new exporters you are eligible to participate in the ‘Your Passport to Export Success’ programme which offers hands-on help, essential staff training and subsidized overseas visits.

Register for free on the UKTI website and gain access to a wide range of information and support. In particular go to ‘Our Services’ – ‘Preparing to Trade’ and try the ‘Are you ready to export?’ online questionnaire covering all of the questions above and many more. The short time it takes you to complete the questionnaire will be time well spent when you print out the subsequent report, which is generated from

your responses. It will also allow you to make a direct contact with your local Business Link and an ITA who can follow up the preliminary report.

It is often the case that such a report will highlight the need for specialized training for new exporters in export marketing and the technical processes involved in distribution and payment. A number of organizations offer relevant short courses, notably the Institute of Export who offer a comprehensive Short Course Training Programme (details on [www.export.org.uk](http://www.export.org.uk)).

Other websites which offer essential support are:

- Market Access Database ([www.mkaccdb.eu.int](http://www.mkaccdb.eu.int)): providing detailed and product-specific information on the import requirements and barriers for all non-EU countries.
- HM Revenue & Customs ([www.hmrc.gov.uk](http://www.hmrc.gov.uk)): the Customs site provides a huge range of information regarding export and import procedures, mostly written in plain English.
- SITPRO ([www.sitpro.org.uk](http://www.sitpro.org.uk)): wide range of guides and checklists covering most export procedures.

And all for free.

There is a lot of information and help out there. Just make sure that you are not sharing the fate of the exporters who lost money because:

- their bone-china dinner services specially designed for the Italian market failed to sell at all because they lacked a pickle bowl;
- the Libyan flags in the left paws of the promotional teddy bears were seen as an insult to the flag and were destroyed. (In most Muslim countries the left hand is for toilet purposes only!);
- the sole distributor they appointed was actually already contracted to sell a direct competitor's products – which they continued to do with great success;
- the 'before and after' photographs which had worked so well for the sale of depilatory creams in English-speaking countries did not work so well when translated into Arabic, which reads from right to left. They forgot to reverse the pictures!

And how about the loss of £155,000 worth of goods because a comma instead of a full stop on an invoice presented against a letter of credit meant that the bank rejected the documents. The buyer, quite legitimately, refused to pay and, because the exporter did nothing, the original buyer then picked them up at the auction in the port of destination some 10 weeks later at a quarter of the original price.

All could have been avoided with some basic research and good advice.

Exporting offers huge rewards both to the companies and the people involved but the ill-prepared 'amateur abroad' will not survive in this fascinating but dangerous jungle.

Following experience in the United Kingdom export manufacturing sector and 20 years as Senior Lecturer in International Trade at Central Manchester College, Jim Sherlock FIEEx, MCIM, Cert. Ed. is now a full-time trainer and consultant in international trade.

He is the co-author of *The Handbook of International Trade* (Kogan Page), author of *Principles of International Physical Distribution* (Blackwell) and a contributor to *Directions in International Marketing* (Routledge), *Financial Management Handbook* (FT Law & Tax), *Your Business Your Bank* (IoD) etc.

# Faster payments

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*Three days? Two initiatives are helping to put cash more quickly into your account, says Jane Barber, head of product development for Global Transaction Services UK*

Payments, whether they are domestic or international, are a key function for any business. Whether it's paying a supplier or salaries, or simply moving cash between accounts, making fast and secure payments is an important activity for growing UK businesses.

Two key developments in the world of payments which will have an impact on businesses in the United Kingdom that make sterling or euro payments have occurred in 2008: the introduction of the Single European Payments Area (SEPA) and the launch of faster payments.

SEPA is a single borderless area for electronic payments for countries within the Eurozone. It is a driver for change and is designed to support and facilitate commerce and the efficient movement of monies across EU borders. These cross-border payments are made just as freely as domestic payments.

The SEPA programme is being developed by the European Payments Council and supported by the European Commission and European Central Bank. It is a gradual programme which includes the creation of SEPA as the first step, but also includes the introduction of new SEPA Credit Transfers (SCT) and SEPA Direct Debits (SDD).

According to the banking industry, the launch of SCT in January this year has gone well and more SCTs are starting to be made as familiarity with their benefits becomes better known. Work continues to develop the SDD, which is scheduled to be launched in November 2009. This is expected to offer a more streamlined way for businesses that have to collect monies across the EU.

The SDD launch is planned to coincide with the introduction into law across the wider European area of the Payments Services Directive. This will be wide-reaching legislation, covering payments in all the currencies of the participating countries. It will also seek, among other things, to increase transparency in the information provided by the banks and payment service providers, and to introduce harmonized and guaranteed service levels. More will become known as we move into 2009.

The launch of the United Kingdom's Faster Payments Service took place in May 2008 and will make a difference to how businesses and personal customers make and receive payments domestically.

The new service will benefit customers by speeding up one-off payments made over the internet or by phone, reducing the current three-day clearing timescale to enable these payments to clear within hours. For the first time it will also be possible to make these payments all day, every day. Standing orders that previously took three days to move between banks will now become same-day payments. They will continue to be made on bank working days only.

Each of the 13 participating financial institutions will be confirming their own plans for introducing their competitive services to their customers and explaining what this means for them. Like SEPA, this is a phased roll-out by banks to their customers over the remainder of 2008. As it settles down, it is expected that more financial institutions will take part.

For any growing business, cash management is crucial. Knowing how to make the most of cash balances, having complete control on funds and accessing new payment types can make a significant difference and businesses should turn to their banks for advice to discuss these.

The Royal Bank of Bank (RBS) customers wanting to make faster payments or SCTs will be supported by Bankline, the RBS internet banking service for everyday banking that customers can access anywhere, any time. Other banks will have their own systems and also their own communications to customers to explain what this will mean for them.

## Benefits

For businesses in the United Kingdom and overseas there are many potential benefits to improve their cash management and business operations, but realizing these can be an issue. There are a number of issues to address with regards to SEPA and faster payments and now is the time to act.

How should businesses respond? Here are some suggestions.

- Identify someone within the organization who is accountable for keeping up to date with the impact of changes in the payments arena. It's important to find out how you can make the most of these new developments and understand fully how they impact your business.
- Engage with your bank to work collaboratively on raising your awareness and understanding of the overall initiatives. They are the experts – use their knowledge and guidance so you can focus on running the business.

- There is a commonly held view in the business community that the primary impact of SEPA and Faster Payments is on the banking community; however, they do offer new options to improve business efficiency and reduce costs.
- As a practical step, if you operate in the EU, ensure that all invoices and communications to suppliers and contacts contain your IBANS and BICS, and seek them from those you deal with too.
- Think about how you can use the benefits of faster payments to manage your cash flow differently. You may be able to use them to get money to your suppliers more quickly, while at the same time holding on to funds for longer. Or you may find they help your payroll process where you have temporary or weekly paid employees.

What has clearly evolved within the payments arena is that the focus is now very much on the customer. Payments are core to the relationship between a bank and a corporate. Evidence shows that the business customer views how well a bank positions its cash management and payments capability as a very important selection criterion for choosing a new banking partner.

Working collaboratively with your bank will give you the guidance needed in order to take advantage of these changes.

The Royal Bank of Scotland Group is one of the world's leading financial services companies providing a range of retail and corporate banking, financial markets, consumer finance, insurance, and wealth management services.

RBS Group operates in over 50 countries across Europe, the Americas, Asia and the Middle East serving more than 40 million customers and employing more than 170,000 people. In addition to the provision of a full range of banking services under The Royal Bank of Scotland and NatWest brands, RBS Group also includes ABN AMRO, Citizens Financial Group, Ulster Bank, Coutts Group, Direct Line and Churchill.



# Doing business in India

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*If you are searching for growth, then look at India. Shavak J Kapadia at Mazars in Mumbai explains how to get yourself up and running*

## India: key figures

- India's economy grew by 8.7 per cent in 2007 and is expected to grow by 7 per cent to 8 per cent during 2008.<sup>+</sup>
- Consumer price inflation is at an average of 6 per cent to 6.5 per cent.
- GDP per head USD 846 at market exchange rates (USD 2,521 at purchasing power parity).
- Exports were at USD 126 billion and imports at USD 190 billion.\*
- Foreign Direct Investment (FDI) – USD 19.5 billion.\*
- Foreign exchange reserves USD 199 billion.\*
- Telephone connections (including hand phones) – 250 million.

Some interesting facts:

- Telephone connections are increasing at the rate of 6 to 7 million per month.
- Four Indian citizens have been named among the top ten billionaires by net worth in a recently released list by *Forbes* magazine, but India ranked 161 out of 209 nations according to the per capita gross national income data for 2006 released by the World Bank in September, 2007.

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<sup>+</sup> Real rates of growth

\* For the 12 months ended/as on 31 March 2007

- English is generally sufficient to transact business in India.
- India is the world's seventh largest nation by land area and has more arable land than nearly all nations larger than it, but also has the world's second largest population at 1.1 billion.
- Despite a poor average standard of living, the nation has managed to remain a democracy, with a free press and fair elections.

## Why invest in India?

Foreign investment is welcome. There are restrictions in certain sectors considered to be sensitive, but most manufacturing operations would not require government approvals for foreign investment in the Indian companies carrying out such operations. In most cases, 100 per cent foreign ownership is permitted. The policy environment provides freedom of entry, investment, location, choice of technology, production, import and export. Despite restrictions in several non-manufacturing sectors, the country is one of the most open to foreign investment in Asia.

Skilled workforces and professional managers are available at a competitive cost.

There are sophisticated legal and accounting systems, similar to those found in several OECD countries.

English is widely spoken and understood and it is possible to communicate directly with partners, customers, suppliers, etc in this language and, therefore, to understand and follow contracts, arrangements, negotiations, etc.

The local currency, the rupee, is convertible on current account at a market-determined rate. There is free and full repatriation of capital, technical fees, royalties and dividends.

India has a long history of stable parliamentary democracy. Although major decisions and policies may therefore take time to arrive at, there is usually a deeper and longer-lasting commitment to the democratic consensus arrived at after taking competing interests into account.

## The three main choices of business entity for foreign investment in India

### *1. Liaison offices of foreign companies*

#### Permitted activities

Permitted activities are restricted to the following:

1. representing in India the parent company/group companies;
2. promoting export/import to/from India;
3. promoting technical/financial collaborations between parent/group companies and companies in India;
4. acting as a communication channel between the parent company and Indian companies.

A liaison office cannot undertake any activity of a trading, commercial or industrial nature other than the above. It is not permitted to earn any income, borrow or lend money. It is also not permitted to acquire, hold (otherwise than by way of lease for a period not exceeding five years), transfer or dispose of any immovable property in India without the prior permission of the Reserve Bank of India, or to acquire the whole or part of any business undertaking or equity shares or other financial investments without similar prior permission.

All liaison office expenses must be met out of inward remittances only. Since the liaison office is prohibited from earning any income in India, all liaison office expenses must be met only out of inward remittances from the head office.

This form of organization approximately corresponds to what is often referred to as a 'marketing office', which has no authority to conclude contracts. It is therefore used at an initial, exploratory stage, where there are no firm plans for the commencement of full operations over the near term.

## **2. Branch offices of foreign companies**

### Permitted activities

The activities permitted for a branch are:

1. export/import of goods;
2. rendering professional or consultancy services;
3. carrying out research work, in which the parent company is engaged;
4. promoting technical or financial collaborations between Indian companies and parent or overseas group company;
5. representing the parent company in India and acting as buying/selling agent in India;
6. rendering services in information technology and development of software in India;
7. rendering technical support to the products supplied by parent/group companies;
8. airline/shipping activities (provided that the foreign parent is in the same line of business).

A branch is not permitted to carry out any manufacturing activities in India. A branch office is not permitted to borrow or lend money without the prior permission of the Reserve Bank of India. Whereas a branch office may acquire immovable property provided that it makes the relevant filings with the RBI, it is not permitted to let out or lease any portion of it to any other party, and has to keep the RBI informed of its dealings with immovable property. The disposal of immovable property requires the prior permission of the RBI. It is also not permitted to acquire the whole or part of any business undertaking or equity shares or other financial investments without similar prior permission. Retail trading activities of any nature are not allowed for a branch office in India.

Remittance of profits requires appropriate procedures to be followed for this purpose. As this *inter alia* involves the certification of accounts, remittance of profits normally takes place well after the year-end.

### 3. *Limited liability companies*

#### Permitted activities

There is no discrimination between what an Indian-owned or a foreign-owned Indian company is permitted to do in terms of operations. Thus, a 100 per cent foreign-owned company may own property such as factory buildings for its operating purposes and carry on manufacturing operations. This form of organization is therefore essential for full operations in India.

Whereas 100 per cent foreign ownership is permitted for most manufacturing activities, there are certain, mostly service, industries, such as telecoms, non-banking financial services, trading and insurance, where foreign ownership is restricted and controlled or subject to certain conditions. Another area of operation where foreign investment is subjected to conditions and restrictions is the development of real estate. Ownership of real estate for investment purposes is not permitted. Certain other lines of activity require prior government/Foreign Investment Promotion Board (FIPB) approval for foreign ownership or foreign ownership exceeding certain limits. Such restrictions on, and prohibitions on, investments in certain sectors or on certain types of trading enterprises, in accordance with industrial policies of the Government of India, are subject to change without prior notice.

If the investing foreign company already has an arrangement with an Indian company, which amounts to a foreign collaboration, or its proposed activities amount to trading, or its proposed operations are in activities reserved for the small-scale sector or otherwise necessitate government approval, the Indian company or the investing foreign company may also need to make an application to the FIPB, as well as obtaining a no-objection certificate from the Indian company with which it has or has had a prior foreign collaboration.

There is no standard application form for an FIPB application, and information required will vary on a case-to-case basis. An approval from the FIPB is discretionary, that is, it may or may not be granted.

Indian transfer pricing law would apply to transactions between related Indian and foreign parties.

Remittance of profits requires appropriate procedures to be followed for this purpose. As this *inter alia* involves the certification of accounts, remittance of profits normally takes place well after the year-end. However, except for certain filings of documents and a Chartered Accountant's certificate with Indian bankers and the remittance of funds out of India, there is no difference in the procedure for the receipt of dividends in the hands of a foreign company shareholder or an Indian shareholder in an Indian company. International taxation law would have to be adhered to, as applicable.

### Some tips on business interaction

Be patient, especially when dealing with the authorities. Matters seem to take their own time in India, but this affects everyone, not just foreign investors.

Personal relationships are very important in order to get along with partner organizations and to get things done. Intuition and relationships are considered to be at least as important as the numbers. Respect seniority and authority, even within your own team or group. Find out who really takes the decisions, especially in SMEs, where managers often simply report back and may not have complete authority over final decisions.

Languages vary from state to state, but English is considered to be the language of business and the law.

Be nonchalant about things like power failures and the ‘infrastructure deficit’, and you will gain acceptance as someone who understands how the country works and its limitations, but is prepared to do business and proceed with projects within this framework. Leave most of the complaining to the locals, but understand what the limitations are and plan for them.

Stock up on business cards. Everyone will expect to be given one the first time you meet them.

Discussing cricket can be a good icebreaker.

If your hosts are vegetarian, try to manage with vegetarian food when with them – it will be quietly appreciated.

Participate in the ceremonies which are conducted when opening a facility, on the achievement of milestones, etc. It’s all right to remove a garland once off a stage or presentation area, after about five minutes.

In most cases, people are reasonably punctual. A few minutes’ delay for an ordinary meeting is not unusual.

Litigation is a very slow process. It is often best to avoid litigation, or to first ensure that your interests are adequately protected and then settle out of court.

Shavak J Kapadia is Senior Manager, Corporate Advisory Services, at Mazars in India. He is based in Mumbai, the financial capital of India, and specializes in business entry strategies and valuations.

E-mail: [shavak\\_kapadia@km.co.in](mailto:shavak_kapadia@km.co.in)

# Acquisitions

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# Managing an acquisition

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*Acquisitions can let you leap ahead, although they can just as easily trip you up, say Christopher Jones and Jason Curl at Sunbelt*

Growing a firm through acquisition is somewhat like negotiating slippery winter roads: to do it well, one must know the terrain and current conditions and be extremely skilful. It's not so wise just to jump in the car and slam the foot on the accelerator.

## Steps to M&A – the acquisition process

1. Set the objective: 'Why are we doing this?'
2. Assemble the team.
3. Develop criteria for target companies.
4. Apply criteria, find candidates.
5. Narrow the field; approach key prospects.
6. Letter of intent, due diligence, structure and close.
7. Integration, measurement and review.

**Remember: approximately 85 per cent of all M&As are FAILURES!**

## 1. Set the objective: 'Why are we doing this?'

### *Why acquire?*

All organizations want to grow. Every big business started out as a small business. The main issue that most organizations face is whether to build (organic growth) or buy



(inorganic growth). In this chapter we will be focusing on inorganic growth through acquisitions.

One of the first issues that requires an in-depth examination is the reason to acquire in the first place.

### ***Reasons for acquisitions***

In order to increase the success of an acquisition, it is important that the acquisition strategy coincides with the business strategy. Some strategic business reasons for pursuing an acquisition are: to increase market power – this is where an acquisition is intended to reduce the competitive balance of the industry; overcome barriers to entry – in some cases an acquisition can overcome costly barriers to entry which may make ‘start-ups’ economically unattractive; lower cost and risk of new product development – this is similar to the previous reason whereby buying an established business can reduce the risk of a start-up venture; increased speed to market – also closely related to barriers to entry, this strategy allows for market entry in a more timely fashion; and reshaping competitive scope – a firm may use an acquisition to restrict its dependence on a single or a few products or markets.

In many of the cases where acquisitions fail, the reason for pursuing the acquisition in the first place may have been more closely related to personal rather than corporate ambitions. Some of these reasons are: the city will like it, we need a million/billion-pound company, the company needs to diversify, it is a good opportunity, it represents an ideal turnaround scenario, and many more.

It is essential that there is always a good commercial logic underpinning an acquisition strategy or the risk of failure multiplies exponentially. Once a sound, overall acquisition strategy has been agreed and the broad financial and market objectives for acquisitions outlined, the next step is to plan in detail how to execute this strategy. The more planning and work that have been done to prepare the acquisition strategy the easier this will be. The next steps are all about engaging the right team of advisers, both in-house and external, to complete the transaction.

## **2. Assemble the team**

Once it has been determined that an acquisition strategy is to be pursued, the process begins with the assembly of the acquisition team, which is typically made up of the key officers of the company, lawyer, accountant, and other strategic or financial advisers, such as business brokers or investment bankers.

A professional team working behind the scenes can make all the difference between a successful transaction and a failed one. Make sure that the company assembles a team of deal-makers and not deal-breakers. The difference in this may well lie in the quality of the team. True experts don’t come cheap and this is one case where it is likely that you will get what you pay for.

A good lawyer is an essential part of the team and he or she will be involved in every step of the acquisition process. This is not a time for generalists. Be sure that the lawyer specializes in business sales and acquisitions and has an understanding of

tax law; if not, it may be worth considering the addition of a tax lawyer to the team as well.

As with the lawyer, a good accountant is indispensable in the acquisition process and should be brought in as early as possible. It may be beneficial to bring them in early in the strategic planning process as the advance planning and financial strategies they can provide may prevent some early missteps.

Business brokers and mergers and acquisition specialists act as intermediaries between buyers and sellers. They may have listings from numerous sellers and can search out the right business for a buyer, often working with other brokers as well as going through their own listings as well. They may be particularly useful for firms looking to acquire outside the industry with which they are familiar.

Internally, the acquiring company's MD or CEO must be involved. He or she is the voice of the buyer and the strategic decision-maker. The company's financial director or controller will be tapped to answer the financial questions, and the head of operations must be a key player too, as it will fall to that person to determine whether successful integration can be achieved. As mentioned earlier, this may be the most important decision to be made.

Stay on top of the team. The company must decide when to engage counsel, when to delegate authority and when to make its own decisions. There is a big difference between just making a transaction and making it successful.

The acquisition team will help identify the key strategic and financial objectives of the transaction, and these will then be used as the criteria for screening candidates. After the team has identified the acquisition objectives and developed the criteria for analysing a target company, the next logical step for the team is to select and then narrow the field of candidates.

### 3. Develop criteria for the target acquisition

In order to determine the profile of a potential acquisition it is important to perform an in-depth analysis of the acquiring company and the industry and finally develop a target profile for acquisition. The first two steps are critical in order to maximize the third.

#### *Know thyself*

A sign above the Oracle of Delphi's door said 'Know thyself'. This is prudent advice not only on a philosophical level but also for an organization.

One of the keys to a successful acquisition is to first examine the acquiring organization. For this purpose a SWOT analysis is a useful tool. SWOT analysis is a powerful technique for understanding a firm's Strengths and Weaknesses, and for looking at the Opportunities and Threats it faces. Used in a business context, it helps carve a sustainable niche in the market.

What makes SWOT particularly powerful is that, with a little thought, it can help a company uncover opportunities that they are well placed to exploit. And by understanding the weaknesses of a business, the company can manage and eliminate threats that would otherwise catch it unaware.

More than this, by looking at yourself and your competitors using the SWOT framework, you can start to craft a strategy that helps you distinguish yourself from your competitors, so that you can compete successfully in your market.

This, along with an in-depth analysis of your industry, will help you develop an effective target profile for an acquisition.

### ***Know thine industry***

The next step after you have completed an in-depth analysis of your organization is to examine the industry in which you are operating. For this, Porter's Five Forces analysis tool is recommended.

The Porter's Five Forces tool is a simple but powerful tool for understanding where power lies in a business situation. This is useful, because it helps you understand both the strength of your current competitive position and the strength of a position you're looking to move into.

With a clear understanding of where power lies, you can take fair advantage of a situation of *strength*, improve a situation of *weakness*, and avoid taking wrong steps. This makes it an important part of your planning toolkit. Conventionally, the tool is used to identify whether new products, services or businesses have the potential to be profitable. However, it can be very illuminating when used to understand the balance of power in other situations too.

### ***Know thy target***

So if you are ready to grow by acquisition, how do you get started? Before doing anything, spend time building a target profile.

#### **What is a target profile?**

A target profile is a well-thought-out and documented list of the features and characteristics that you will look for in a good target business.

#### **Why a target profile?**

Prepare a target profile before beginning your search for businesses to buy, as it will reduce the amount of time required for the search. A tremendous amount of time can be spent searching for the right candidate, especially if you do not really know what you are looking for. Narrow your search by building a target profile.

#### **What should you profile?**

Some of the features and characteristics are obvious, but take the time to think it through and document them:

- Line of business – are you interested in buying an HVAC or plumbing business?
- Market – where should the customers be located?
- Size – how much is too much? How much is too little?

Expand on the line of business. Are you going to purchase a service or new construction business? What about a combination of the two? Be honest with yourself. If you only want new construction work, make note of that!

### What else?

Don't stop there – there are many other features and characteristics that you should document and then look for. As an example:

- What are your expectations regarding the owner/manager – are you looking for a new partner or would you like to see the owner leave the business after the deal?
- What are your expectations regarding technicians – maybe you have enough technicians (does anyone?) and all you are looking for is more revenue. In that case, the number and quality of technicians will not be as important.
- Should the target business be profitable or are you looking to 'bottom- fish'?

### Aim for the bull's-eye

Go ahead, list as many expected features and characteristics as possible (there are many others). The better you know what you are looking for, the more likely you will find it. However, remember that the target profile is just that, a target. When you are at the rifle range, you aim for the bull's-eye, but sometimes have to settle for a hit in one of the outer rings.

### Target profile = safety net

Aside from serving as a tool to help you save time in searching for a target business, a target profile will serve as a safety net during negotiations with the seller. How closely the target business matches your target profile will help you determine how far you are willing to stretch to close the deal. Finally, emotions come into play when buying a business of any size. Going back to the target profile and comparing the features and characteristics to the business you are about to buy can serve as a reality check.

## 4. Apply criteria, find candidates

Once armed with detailed criteria, the next step is to identify targets that meet the desired characteristics. Regardless of whether the company is using its own researchers or has engaged outside specialists, the sources of information are likely to be the same. There are various databases of company information available as well as industry reports. Most of these are available in electronic format and via the internet. Some, if not most, of them will require payment or subscriptions.

If the company has retained a business broker, investment bank or corporate finance house, they should be able to provide a good first list of targets which meet the initial criteria as well as an assessment of the feasibility of each of the firms on the initial target list. They will most likely have a broader range of information sources available to them.

Some potential sources of information are: the company's knowledge – many of the main prospective targets may already be known to the company as competitors, suppliers or customers; adviser's knowledge – suggestions from bankers, brokers, auditors, suppliers, customers and other close contacts of the company can be used to create the initial list of possible acquisitions; rigorous research – trade sources include trade directories, supplier directories and buyer's guides, exhibition catalogues, trade literature, trade journals, industry surveys, the internet and comments from companies and individuals working in the targeted industry sector as well as the business sections of major newspapers.

The number of acquisition targets found will depend greatly on the characteristics of the desired acquisition. If the acquisition profile is a large firm within a single country then this will yield fewer results than a wide range of businesses in many countries. These criteria will also determine the amount of effort required to develop a list of potential acquisitions.

It is also quite possible that no acquisition target is found and in this case it should be concluded that no appropriate company is available at this point in time.

If a list of target companies has been compiled then the next step is to approach these firms.

## 5. Narrow the field; approach key prospects

Depending on the search criteria and the industry, it is likely that between 10 and 20 per cent of the companies on the initial list will be considered attractive enough for a subsequent evaluation and approach.

Before making contact, careful consideration needs to be given as to the timing and method of approach and, most importantly, to whom the approach should be made. An inappropriately directed first approach can kill any chances of a successful deal. In the best-case scenario, the target company will not be in a formal sales process and an approach can be made directly to the chairman or chief executive. The best bet is to avoid getting into a competitive situation and in order to do so it is important to have a compelling proposition as to why a sale to your company makes the most sense.

In some cases, it may be best for the approach to be made by an intermediary. There are a number of factors to be considered when making an approach, such as the structure and size of the potential acquisition. The actual method of approach may depend entirely on these factors. If a third-party introduction is possible, this may be the best approach. An informal setting such as lunch may be set up, with the agenda being to compare notes on the industry or to discuss mutual competitors. In most cases, the approach should be direct; however; this does not mean that the reason for establishing the first meeting cannot be indirect.

Whatever the method or circumstances of the approach, the results are bound to range from outright indignation at the thought of someone taking their baby, to them seeing pound signs.

There is also the question of how many firms to approach at any given time in the process. This may depend on the size of the acquisition team as well as whether or not several acquisitions at the same time are desirable or only one is desired at a time. In any case, there should be a balance between a limited approach in order to maintain focus and a broad approach in order to avoid losing any opportunities.

## 6. Letter of intent, due diligence, structure and close

From start to finish an acquisition can be a long and complicated process. Depending on many different factors, there are several different documents that may be used during the process.

The first document that is usually introduced will be a confidentiality agreement that the seller requires the buyer to sign. There are several reasons for this, and first and foremost is the fact that the seller will not want certain parties to find out that the company may be for sale. These parties include the employees, vendors, customers and competitors. It is quite possible that much of the goodwill a company has built up with these stakeholders can be eroded by a breach in confidentiality. Another concern for the seller is that a potential buyer may just be on a fishing expedition or just looking for information about the business. This document should protect the interests of both parties and facilitate the process moving forward.

The next document that is likely to be used is either a letter of intent or heads of terms. It may also be known as a memorandum of understanding or an agreement in principle. It is as it sounds and is utilized to form a framework for the deal. It can be broad in some terms but narrow in others. This document can be either binding or non-binding, depending on the wording of it and the clauses contained within. In some transactions this document can be so thorough that once both parties have agreed upon the terms it is used to complete the transaction.

One difficult issue in the drafting of the letter of intent or heads of terms is whether or not to include a price. From a buyer's perspective, the desire is to not set a purchase price until due diligence has been completed. However, the seller may hesitate or refuse to proceed without a price commitment. Therefore, one option is to establish a price range with a clause that states the factors that will influence the final price. As a buyer, always reserve the right to change the price and terms in the event that information is discovered during due diligence that will offset the target's acquisition value.

The next phase of the process will be the due diligence process. Due diligence is usually broken up into three categories: legal due diligence, financial due diligence and operational due diligence. The legal due diligence focuses on the potential legal issues and problems that may impede the transaction, shedding light on how the final documents should be structured. The financial due diligence focuses on the current, historical financial statements of the company, as well as future projections and also the gathering of information necessary for financing the transaction. Operational due

diligence focuses on the strategic issues surrounding the transaction, such as integrating the human and financial resources of the two companies, confirming the operating, production and distribution synergies and economies of scale to be achieved by the acquisition.

The due diligence process can be tedious, frustrating, time consuming and expensive. Yet it is a critical aspect of a well-planned acquisition and can be quite revealing in analysing the target company and measuring the costs and risks of the transaction.

If the heads or letter of intent is not made binding then the final document that is necessary to complete the transaction is the purchase sale agreement. This document is usually prepared by the purchaser's lawyer and should be as detailed as possible to avoid any misunderstandings or misrepresentations at the time of completion or in the future. Most purchase sale agreements protect the buyer, with most of the warranties and indemnities favouring the buyer. The section most relevant to the seller will be the security behind any deferred consideration or earn-out.

Depending on how detailed the letter of intent or heads of terms were, the purchase sale agreement may take the form of a 'travelling document' and will be sent back and forth for negotiations and drafting. Once this document has been executed by both the buyer and seller, the transaction is complete and legally binding.

Christopher Jones and Jason Curl are the master franchisors and senior brokers for Sunbelt Business Brokers UK, part of the International Sunbelt Network. Sunbelt is the largest business brokerage firm in the world, making it the dominant force in the industry. Since 1978, the company has evolved into a business brokerage network including 300 offices throughout the United States and 30 foreign countries. Their services include business sales and acquisitions and valuation services to the SME market.

Tel: 0845 094 3041

E-mail: [cwjones@sunbeltnetwork.com](mailto:cwjones@sunbeltnetwork.com) and [jcurl@sunbeltnetwork.com](mailto:jcurl@sunbeltnetwork.com)

# A legal guide to acquisitions

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*Edward Sanguinetti at Goodman Derrick discusses the main aspects of acquiring a business*

This chapter is a legal guide to the main aspects of the acquisition of a private company or business within the United Kingdom. It is not intended to be a fully comprehensive guide and will not cover the regulatory aspects of a deal – it merely highlights the key legal issues and also areas where deals tend to fail.

## Types of acquisition

Acquisitions usually take one of two forms. The first is to purchase the entire share capital of a company. This method is known as a ‘share purchase’. The second method is to cherry-pick the assets which make up the business being acquired. This method is known as a ‘business’ or ‘asset’ purchase.

It is important to understand the difference between the two. If the shares are purchased, then all the assets, obligations and liabilities of the business will be automatically acquired (even those of which the purchaser was not aware). In a business purchase, only those assets and liabilities which the purchaser chooses will be acquired, and with some exceptions (notably employees who may transfer automatically under TUPE regulations) any others do not automatically transfer to the new owner.



The documentation required for a share purchase is, at its simplest, a stock transfer form but, being lawyers, we tend to over-complicate things (for the client's protection, naturally!) and produce a slew of supplementary documents. In a business purchase, on the other hand, the transfer of assets will be different depending on the type of asset transferred. Chattels can be transferred by delivery but real property will need to be transferred by conveyance and intellectual property will need to be transferred by way of assignment. In addition, the consent of landlords, suppliers, customers and others will be required to assign or novate existing contracts. Some of the contracts to which the company is a party will contain 'change of control' provisions but a share purchase will require fewer consents.

Some situations will dictate whether an asset purchase or a share purchase is used. For example, if only partial sale of a business is contemplated, then an asset purchase may be the most practical solution. Alternatively, the parts of the business that the purchaser requires can be 'hived off' to a new company which is then sold. Tax and accounting matters will also influence which route is taken.

## Initial negotiation and heads of terms

Before instructing lawyers, the prospective seller and purchaser will often have several meetings to negotiate the terms of the deal. This may result in heads of terms. These are not essential but they will assist both purchaser and seller in understanding the scope of the deal and are useful for focusing minds. They also help to avoid conflict arising later due to misunderstandings. Heads of terms are usually not legally binding, although some provisions (such as the treatment of confidential information acquired during initial negotiations) should be expressed to be legally binding. The seller and purchaser may also incorporate an exclusivity, or 'lock-out', agreement, which will prevent the seller from actively seeking or negotiating with other prospective parties and gives the purchaser a period of exclusivity during which to negotiate the share or asset purchase agreement. The input of your lawyers and financial advisers in drafting the heads of terms can prove very valuable and help prevent much wasted time and effort on unworkable deals.

Many deals will fail at the initial stage, before heads of terms are even drafted. The interests of the prospective purchaser and seller are somewhat different and it is natural that some conflict will arise. The main areas of tension are tax and liabilities. It is not within the scope of this chapter to discuss the tax implications of share purchases or asset purchases, but certain advantages that are available to sellers or purchasers on a share purchase will not be available to them on an asset purchase and vice versa. In the case of liabilities, the seller will want to sell the whole business together with all its liabilities but the purchaser may want to exclude some or all of them.

## Due diligence

This is a process whereby the purchaser and its legal and financial teams gather information about the company to be purchased. Whereas the heads of terms sets out the

most important parts of the deal, due diligence is an extremely detailed process. The default position under English law is *caveat emptor* (purchaser beware), which means that the purchaser will acquire a company with all its liabilities, whether they are known or unknown, and so the information provided will allow the purchaser to decide whether the business is, in fact, suitable for acquisition, how it will fit within the purchaser's existing company structure and identify any 'skeletons in the cupboard'. As a result of the process, the purchaser may want to negotiate a reduction of the sale price or walk away from the deal altogether. Any potential problems or liabilities should come to light and the seller has a duty to make fair disclosure to any question put to it by the purchaser. The purchaser will want protection against risk as well as against those areas that it was not possible to investigate fully during the due diligence process, which will be built into the final agreement in the form of warranties and indemnities.

Warranties are assurances given by the seller to the purchaser that the company being acquired is in the condition described. They will be broken down into specific areas such as land and buildings, employees and IT. If the statements prove to be incorrect at a later stage, then the purchaser will be entitled to sue the seller for a breach of warranty if the company value is reduced as a result. The seller has the opportunity to disclose information against them (in a disclosure letter), thereby alerting the purchaser to any potential problems but also protecting the seller from claims if information has been sufficiently disclosed.

Indemnities are guarantees by the seller to reimburse the purchaser for certain types of liability on a pound-for-pound basis and provide stronger protection. The most usual forms of indemnities are in respect of tax not provided for in the last audited accounts and not arising out of corporation tax on normal trading profits since the last balance sheet date. These will often be included in a tax deed (which may be incorporated into the final share purchase agreement or may be a standalone document). However, indemnities can also be used to cover risks such as unresolved litigation, environmental liabilities, doubtful book debts, or product liability claims in relation to products sold before completion.

The due diligence process will be more detailed and longer for share purchases than for asset purchases because of the greater risk assumed in the former. The purchaser will instruct solicitors and accountants to carry out legal and financial due diligence respectively. Each will usually prepare a report which will influence the structure of the deal and the final form of the agreement. There will be some degree of overlap between the two and this may result in tension if a seller is unprepared for the task. A seller is not obliged by law to answer due diligence questions but obviously they will have an incentive to cooperate with the purchaser's advisers and a purchaser should be wary if this is not the case.

## Completion

The culmination of the due diligence process will be the share or asset purchase agreement. As well as containing lengthy warranties and indemnities (which often make up over half of it), it deals with the calculation of the sale price and how and

when it will be paid, what conditions precedent the purchase may be subject to, any restrictive covenants which bind the parties and completion arrangements. The tax deed will only be required on a share purchase. On a business purchase, the purchaser will not be taking on the tax history of the business.

The final step in the process is known as completion, which is normally the time when the shares or assets are transferred and the documents are dated. Once the parties have reached this stage, the deal is unlikely to fail but it is still possible if, for example, financing is withdrawn, which may become increasingly common in the current economic downturn.

Edward Sanguinetti is a solicitor and member of the company/commercial law department at Goodman Derrick LLP in London. The firm has a broadly based commercial practice, representing both UK and international clients. Goodman Derrick LLP also has developed an acknowledged expertise in the areas of media law, corporate and commercial law, litigation, property, employment and private client law.

Contact Edward on:

Tel: 0207 404 0606

E-mail: [esanguinetti@gdlaw.co.uk](mailto:esanguinetti@gdlaw.co.uk)

[www.gdlaw.co.uk](http://www.gdlaw.co.uk)

Please do read the chapter written by Helen Wyatt on employment matters.

# Close the deal

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*Eight things to think about when you structure a transaction from Andrew Millington at Mazars, based on his experience over two decades of acquisitions and buy-outs*

## Try to keep it simple

In the majority of corporate transactions there will be initial optimism, good faith and hope that the terms and the financing can be kept simple and straightforward.

It is during negotiations and the heat of battle that the objective of 'keep it simple' is usually thrown out of the window as complications emerge, respective stances taken and both vendor and purchaser endeavour to improve their positions or try to keep the deal on track with solutions to difficult problems.

The mantra 'keep it simple' is usually the right one to stick to.

## Have creative ideas ready if necessary

The level of complexity increases as a deal progresses and more creative and complex provisions are introduced to mitigate identified risks, deal with an issue or alter 'value' in light of new information.

The signed deal can often be considerably different from that originally envisaged. Often this is the only way to bridge a gap between the sides or get around a refusal to budge on a point. The best advisers are adept at coming up with acceptable alternatives and options to finesse a problem, but it often moves away from keeping it simple. But if it gets the deal done, so be it.

## Use of leverage

Use the cheapest source of funds first and work up the pyramid of more expensive borrowing and finally into external equity investment if required. In between, there are a number of options that may be available such as the use of mezzanine debt or vendor finance.

The cheapest form of finance is existing surplus cash resources and facilities. It may be enhanced with any surplus assets that can be realized – investments or property.

Traditional bank and asset borrowing continues to be available even in today's tighter lending market.

The next option, assuming the business is of sufficient size and profitability, is mezzanine funding. This stretched slice of additional debt carries a premium but is cheaper than raising external equity investment.

It is now common in transactions to see vendors accept deferred consideration, perhaps in the form of loan notes that can be settled over a period of years. In many situations this can meet the requirements of the sellers in terms of price and payment timescales and for the purchasers it is cheaper and more flexible than introducing external equity. This funding route can also provide some comfort to a purchaser of the seller's continued confidence in the business.

## Look at the situation from someone else's perspective

Before embarking on a negotiation, develop as clear a view as possible of the likely issues and the other side's objectives. The questions to address include: What is important to them? What do they want? What are their ideal, realistic and fall-back positions? What do they have to trade? These are just a few of the questions to consider if you are to have any chance of achieving the optimum from what is always a series of negotiations.

Armed with this, you and your advisers can work out how the points will be tackled. For example, should they be reflected in the structure and price, dealt with in the business plan or information pack, or incorporated in the financing structure? Remember to play your cards wisely. It is also an opportune time to decide who is best to go into bat and lead the various negotiations. Often, a key influence in this decision is balancing the personalities and politics.

Remember: you want a successful outcome; hence it is important to consider the people issues and to know when to push hard and when to be prepared to compromise. Negotiation is about people moving from their initially divergent opinions towards a solution that is workable for both sides. So be realistic.

## Have a 'Plan B'

It is always worth remembering that at some point someone somewhere may spot an issue that has been missed or there are last-minute changes. For example, the company may acquire a profitable new client or the industry is hit by an unexpected change. Or someone in the chain can change their mind or have it changed for them.

In these situations, having alternatives and knowing where flexibility may lie is vital if the deal is to complete.

For example, if you push too far to get the best deal possible, you may be removing their comfort zone, which could reduce their give-and-take later in the negotiation process, especially if things become sticky.

## Think about the tax implications early

The tax burden has risen dramatically and the rules are complex. Tax implications should always be at the top of the agenda and careful planning is required from the outset. Ideally, talk to the experts well before you initiate a transaction and ensure that someone involved has a clear understanding of the situation and is on top of it throughout.

If you leave planning and advice until the deal is under way then be prepared to pay more tax.

## Leave some headroom in the financing

In any financing structure there is usually an optimum that generates the maximum amount of fundraising from appropriate sources without pushing each element to the very limit. If one or more elements have gone to the extreme there is no slack or room for change, either pre-deal or soon thereafter.

If you need someone to be pragmatic or further finance unexpectedly soon afterwards, it is much easier to achieve if you have not stripped them bare.

## If you are buying don't overpay

Getting the pricing of any deal right is more of an art than a science and can be difficult to achieve in changing markets. Take care, as there is no worse feeling than finding out you have overpaid after you have done the deal. It can take years to recover the situation and the memory will live with you. Knowingly overpaying for the right opportunity is fine if there is hidden value to extract or there is clear strategic reasoning.

Andrew Millington is a corporate finance partner at Mazars, the international accounting and business advisory firm. Mazars acts for some of the fastest-growing entrepreneurial companies in the United Kingdom. Andrew has over 20 years' experience in corporate finance gained within a Big Four firm, industry and private equity. Andrew has led a large number of transactions in M&A, MBO and a wide range of transaction sizes.

Tel: 0121 212 4579

E-mail: [andrew.millington@mazars.co.uk](mailto:andrew.millington@mazars.co.uk)

[www.mazars.co.uk](http://www.mazars.co.uk)

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## Growth capital



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# Financing growth

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*Once an idea starts to take off, make sure that you already have a growth plan in place, says Catherine Martin at Mazars*

For leaders of new and growing businesses, planning is a continual process by which they control their businesses and monitor them against all manner of benchmarks. Very often, such leaders have tremendous vision for their products or services, and for themselves and their staff; commonly, however, that planning exercise fails to take account of the financial implications of the growth trajectory envisaged, compromising that growth, or even risking negative growth.

Founders of businesses are careful to ensure that they secure the funding required for the start-up stage, without which the business would fall at the first hurdle. Once that focus shifts to operating the business day to day, however, financial issues can emerge.

Common issues associated with financing growth – challenges cited frequently by entrepreneurs and owner-managers – typically include one or more of the following features. It is worth noting that while these are most common in young companies, established private companies and even larger mature trading groups can also suffer:

- **Undercapitalization of the equity base:** Once a business founder has exhausted the available resources of family, friends and the bank at start-up stage, he or she may find that insufficient cash is left over for working capital or for necessary capital expenditure.
- **Lack of forward-looking financial information:** Without credible forecasts and documented plans, it will be difficult to control and monitor the business and difficult to secure additional funding or overdraft facilities.

- Limited financial headroom: All businesses encounter unexpected adverse events and delays from time to time, and most will need some extra resource with which to support tangible growth opportunities, therefore it is crucial to build such contingencies into the cash-flow forecasts.
- Exploiting credit terms: Owner-managers often report pushing their creditors (including crown creditors) to the limit of their tolerance on a regular basis, which compromises future supply and, in extreme cases, may result in creditor action.
- Inability to capture market opportunities: Without the means to fund diversification or intensification of their offering, business leaders will not be positioned to capitalize on the opportunities which they can see.
- Limited investment capability for business development: If the business is growing, or has the potential for growth, sales and marketing activity will have to increase, and will have to be financed.
- Limited spare management time: Managers who are the shareholders, or who are supporting the shareholders, will often end up firefighting when a financial issue emerges, rather than having planned adequately, with the result that their time is spent on the wrong activities and the business is deprived of their operational expertise.
- Lack of full-time finance function: In early-stage businesses, there is often no dedicated financial controller/director, which may mean that there is insufficient expertise in this area to tackle significant issues, or that issues are not resolved sufficiently quickly. It also often results in a significant diversion of management time and energy, giving rise to sleepless nights worrying about finance and missed commercial opportunities.

## **What corrective action can be taken by a business leader facing any of these situations?**

- Stand back and attempt to look at the situation objectively to see all implications.
- Consider introducing new outside influences – a non-executive director, a chairman – someone who can add some real value, ideally some quality relevant experience, and can be a confidant(e) in what is often a lonely place at the helm.
- Find an active joint venture partner who can help share the risk and also facilitate the capture of the particular market opportunity or new development.
- Find a private investor – typically private investors are also looking to become involved in a business in some part-time or occasional capacity (though always be aware that control may be diluted).
- Find and use trusted advisers to help, and share your plans and concerns with them.
- Prepare a plan that can be used internally with ease and which is easily understood by the banks to support your plans.
- Look at raising new equity (private or public markets). Be prepared to let some equity go if it can help the business flourish and if you can see a route to increased shareholder value.

## Staging posts

It is often the case that business founders encounter difficulties because they fail to identify the stage at which their business finds itself. Much depends on the industry in which the business operates, but, typically, start-up founders are concerned about borrowing too much from the bank and the inevitable personal guarantees they will have to provide. Money borrowed from family and friends, or equity stakes taken by family and friends in exchange for their cash injection, assists here, but once those funds have been exhausted, a more demanding array of possible funders emerges.

With an element of luck in terms of industry, geographical locations and other variables, grant funding may be available to some young companies. 'Angel' investors may invest at an early stage, followed by seed capital providers, for proof-of-concept and similar opportunities, but these providers will almost inevitably seek a higher level of return than family, friends and the bank. Where returns become a significant issue is if private equity firms enter the fray: usually seeking an exit after 3–5 years, private equity investors also demand a high annual return on their investment, and, very often, look for a position on the board. With many business founders, there is a natural reluctance to see equity dilution and loss of control, both in terms of voting rights and day-to-day operational interference from, and accountability to, such investors. However, to be balanced against these reservations are the obvious advantages of having sufficient resource to take the business to the next level of achievement, and having access to the experience and expertise of people who have a vested interest in the success of the business. Knowing from the beginning that a private equity firm will want a medium-term exit makes it possible to plan for this, therefore forecasting should take account of the need either to build up sufficient cash to allow them to divest, or consider which equity or debt funder might replace them.

Keeping an eye on gearing is always important and achieving a sensible balance between equity and debt should be easier in a business which has been well planned and monitored. It is also the case that the founder of a business will be able to see, in such a business, the positive effects of a movement away from reliance on personal guarantees and towards a more secure capital structure where earnings and assets provide solidity and security for future borrowings. Being conscious that raising finance in any climate can be time consuming is important, and planning accordingly will mean less firefighting of the type previously discussed.

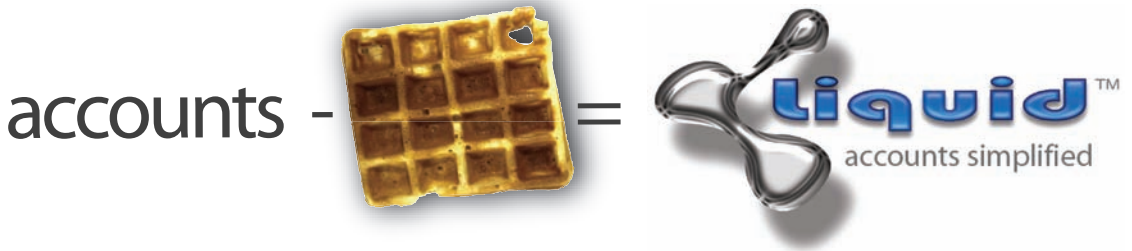
Finding opportunities for growth is only the first stage in planning for growth, but it is the one in which most business owners intuitively excel and which they enjoy. It is critical to remember, however, that once those opportunities have been converted, once diversification strategies have been developed and once market share begins to climb, the means to fund the growth plan must already be in place. Having the right people on board, planning the financing of every aspect of the business plan, and not flinching from looking at the business critically in every respect will pay dividends.

Catherine started her career as a university lecturer in Modern Languages. Subsequent to that, she qualified with Deloitte and joined the Scottish practice of Mazars in 2005 with assignment and practice development responsibilities. Her experience includes disposals, acquisitions, valuations, buy-outs, funding, provision of independent financial advice, company purchase of own shares and transaction support services.

Tel: 0141 226 4924

E-mail: [catherine.martin@mazars.co.uk](mailto:catherine.martin@mazars.co.uk)

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# Financial challenges

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*To grow your business, you need to think of yourself as a CEO, not just as an owner, says Matthew Holmes, managing director at Liquid Accounts*

Most new businesses fail in the first three years (half within the first two years and 75 per cent within the first three years!) and this is generally down to them not being in control of their cash flow. And in the current economic climate things are only going to get harder. So what do you need to be getting right from the start to succeed?

1. Make sure you bill as soon as possible: It may sound obvious, but as soon as you've done the work, send the invoice! Don't be afraid to be prompt – you're only asking for money that's owed to you, and they're not going to pay you unless you ask for it. And if your payment terms are 30 days, and you wait another 2 weeks before you raise an invoice, you're only going to get your money after 44 days at the earliest!
2. Set your payment terms and stick to them: People will naturally try to delay paying for as long as they can get away with (we all do it, because we're all juggling our cash flow, but if everyone paid up on time there wouldn't be a problem in the first place!). However, if you've set payment terms on your invoices then don't be afraid to send a friendly letter or make a quick call *on the first day that the invoice is overdue* to ask when you can expect payment and if there's anything you can do to help. If someone is a habitually bad payer (or you need to improve your cash flow), don't be afraid to shorten your payment terms, or use your rights to charge interest (under the Late Payment of Commercial Debts (Interest) Act 1998). In particular, don't be bullied by the big boys! Just remember, you need the money more than they do!

3. **Have a debt collection system in place:** To make sure that all the above happens you need to have good accounting software that flags up for you when people haven't paid and you need someone keeping an eye on that and chasing payments for you. Early on, this is probably going to be down to you, but as you grow you may consider having someone do this for you (particularly if you're emotionally involved in your business and you take it personally if people don't pay!) and don't be afraid to consider using a professional debt collection service – they should be more successful at getting money out of people, they know the rules, and there is a fear factor that means that people will very often pay up immediately when contacted by a third party (and this may be an extra service offered by a professional body that you're a member of). Obviously this information needs to be kept up to date and any payments you've received need to be regularly entered into the system and matched up against the invoices – you don't want to be ringing people and asking for payment when they've already paid!
4. **Build a relationship with your suppliers:** The other side of the cash-flow equation is paying for the products and services that you've used. The key here is to build up a good working relationship with your suppliers and stay in touch with them. If you've got a problem with paying them (or even better, can foresee a problem) then speak to them as soon as you can. As long as they know that you want to pay and will pay, they'll be more happy to negotiate. Offering to pay some now and some later is better than nothing; however, if you do change or extend your payment terms then make sure you stick to what you've agreed.
5. **Consider using sales order processing and purchase order processing:** Making sure that you confirm every sale and every order with a signed document will make it easier for you to chase a debt or dispute a bill if a problem arises (and again, a good debt collection agency should be able to advise you of what you need and how to set a system up, and any good accounting package should be able to accommodate this). Even without a full contract in place, it will be easier for you to pursue a legal course of action, and you're more likely to get a result. Big companies will automatically have these processes in place, so don't put yourself, as the little guy, at a disadvantage. If you have a computerized accounting system, it should only mean an extra five minutes' work to make sure that you get paid, or that you don't end up paying for something you don't want. Think of it as an insurance policy.
6. **Consider changing to cash accounting:** One good tip for VAT-registered growing businesses is to consider changing to cash accounting in order to improve cash flow. This means that you only pay the VAT on your invoices once you've received the money, and that you don't have to juggle your budget to factor in a huge VAT bill. This will really help if you don't know exactly when you're going to get paid. Obviously you would need to take advice from your accountant and check the rules of cash accounting before switching, but the good news is that you don't have to notify HMRC of the change (you simply have to set a start date at the beginning of a tax period and make sure that there's no overlap on any of the invoices). Again, any good accounting package should have cash accounting built in as an option.



7. **Speak to your bank:** Again, if you anticipate a problem with your cash flow, the sooner you speak to your bank, the better. If you have a good accounting system in place that can show your current financial position, the bank should be able to make a decision on credit or lending based on those figures. By simply having those figures to hand the bank will be able to see that you are managing your money and know what's going on in your business. If you can show them a list of unpaid invoices (your creditors' list or aged credit list) they can instantly see that you have money coming in, but that you just haven't been paid it yet.

Obviously, as you grow, all of these issues will become more and more important. You're taking more risks and investing more money back into your business, which in turn means that your cash flow needs to be healthy and you need to be able to predict when the money will come in to pay for your extra costs. It's a balancing act that *you* have to manage, and the bottom line is that you're not going to make it without having the right processes and procedures in place. The key to this is your accounting system. If you're still using spreadsheets, or a very basic computerized system (not to mention handwritten ledgers!), then now is the time to upgrade. The good news is that this doesn't have to cost you lots of money (and upset your precious cash flow even more) as there are lots of different cost-effective packages on the market, including online options which usually charge a monthly fee rather than a big up-front lump sum. The key is to shop around and make sure that you get something that's right for you and your business. Here are some points you might like to consider:

1. **Will it grow with you?** Having to keep changing your accounting system as you grow is an inconvenience in terms of both time and money that you can probably do without, so look carefully at the options for upgrading and adding on extra functionality at this stage. A package that can grow with you has got to be a bonus, leaving you free to concentrate on more important things like sales, staffing, and premises.
2. **Will it help you manage your cash flow?** Does it accommodate all the points we talked about earlier? Does it include a quick and simple sales order processing or purchase order processing system that could expand to include stock control or multi-currency payments, for example, as you need them? Does it allow you to easily set and change your payment terms? Does it help you monitor and chase debts? Does it quickly and easily deal with VAT and does it have a cash accounting option? Does it include all the planning and reporting tools that you will need, such as cash-flow projections, budgeting etc in a format you're happy with? Can you customize these? Ideally you need to be able to create reports that show you exactly what you're earning and what you're spending in the smallest detail possible, in whatever way is relevant to your business (on a monthly, quarterly, or yearly basis, known as period analysis, or in terms of particular activities, places, clients, orders, products, known as department analysis). That way you will always know what's going on and be able to stay ahead of the game, or if you don't know, you can find out and do something about it.

3. What's included and what's extra? Traditionally, with accounting software you'll be expected to pay for support, upgrades, training, number of users or several licences etc, but again, if you shop around and take a look at some of the newer packages (on- and offline) you may find that some or all of these are included and that there will be less time and effort involved in installing and learning to use the package.
4. How will it work for you practically? Many of today's new and growing businesses exist and are successful because they're run by people who are trying to do things differently or break the mould, and so again, you need to check whether your software will fit with your way of doing things. Is it accessible from different locations or by more than one person (and who needs to access it, and at what level? Do you need to make sure that they can see some things and not others?)? Does it integrate with your other business systems, or with your web or e-commerce site? Does it allow for remote access for your accountant or bookkeeper? How will you be able to exchange and share information? Many businesses make the mistake of handing all their financial information over to a bookkeeper or accountant without knowing how they're going to be able to access that information and know how their business is doing (how many times have you heard someone say, 'I don't know, I'm waiting for the books to come back from the accountants!'). By all means let someone else do the spade work for you, but make sure you have all the information you need to drive your business and your growth. The good news is that more modern accounting software can offer these options.

At the end of the day though, whether you succeed or fail, grow, or just fight to exist, it's going to be down to the people involved, namely you and your accountant. Ideally you need an accountant who can fulfil the FD role in your business. Someone who is going to help you look at and interpret the figures, help you plan and manage your growth, and teach you about the things you don't know, rather than just do bookkeeping or compliance work for you. In an ideal world, your accountant should be a trusted figure in your business to whom you can go for advice; he or she should know what you do inside out and take an interest in helping you develop. It should be someone you're happy to have a long-term relationship with and someone who is going to be able to adapt his or her services as your needs change. And, as with your accounting system, if you haven't chosen wisely to start with and shopped around, now is the time to look for someone more suitable.

You, on the other hand, as the driving force behind your business, need to be able to plan your growth (based on real facts and figures) and anticipate up-and-coming issues and changes, and your accountant needs to be able to support you in that. You need to start thinking of yourself as the CEO rather than just the owner of the business. You need to move yourself into a position of having an overview of the business, and in particular the finances, and have other people below you to actually do the work. You need to get into the habit of regularly looking at and reviewing the figures, both on a weekly and a monthly basis. Every week you should be keeping track of sales and turnover, checking the bank account, and chasing bad debts. Every month

you should be checking your budget and cash flow, and running relevant reports. Your job now has to be a strategic one, keeping things going and driving them forward, rather than being as involved in the day-to-day activities of the business.

Once you're through this critical stage, however, technically, running your business shouldn't be that different. You will now have the right personnel and procedures in place (if you haven't, then you won't have made it!), and you will have increased your turnover. This also means that the banks will be more willing to lend you money, and that you will have more buying power with your suppliers. Ironically, you'll probably feel more confident at being firmer with and more choosy about your customers (as you won't be as scared about losing one or two!), and you'll probably have someone whose job it is to deal with the billing and chase the late payers.

Many businesses do stall or fail at this critical stage. It's not easy juggling all the financial considerations, with the inherent upheaval, changes to staffing, and all the extra compliance and responsibilities that come with it (HR, pensions, Health and Safety); however, once you've taken the plunge and made that step-change, you should be in a better position to deal with whatever comes your way. And as our business adviser says to us, 'Making your first million is an up-hill struggle, but after that you can afford to buy in all the professional help you need!'

As director of IT for the London Law Agency, Matthew was the first developer in the United Kingdom to have his online company formations software approved by Companies House. He has sat on both the electronic formations and the online VAT committees and has represented Companies House, speaking at several conferences in the United States. Now as MD of Liquid Accounts Ltd he is one of the pioneers of the new online accounting software industry.

Further details from Liquid Accounts at 5-7 Rushgrove, Holthead,  
Huddersfield HD7 5TY  
Tel: 0845 450 7304  
E-mail: [matt.holmes@liquidaccounts.net](mailto:matt.holmes@liquidaccounts.net)  
[www.liquidaccounts.net](http://www.liquidaccounts.net)

# Tax-efficient fundraising

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*It is hard enough for growing companies to raise finance. What happens when you throw tax into the equation, asks Adrian Mole, tax partner at Mazars*

Small and medium-sized companies have disproportionate difficulty in raising finance compared to their larger counterparts. There are a number of reasons for this – all beyond the remit of this chapter – but generally it can be summarized that the risk: return ratio is inappropriate.

The tax system has a number of measures intended to help balance this risk: return equation, and to encourage certain sorts of behaviour.

In summary, points that a business owner needs to think about, all of which will be expanded on in more detail, are as follows:

- Reconsider whether finance is actually needed.
- Does it need to be external finance at all?
- If raising finance for asset acquisitions, is it better to lease or buy?
- Is it best to raise the finance as debt or equity?
- If equity, is it possible to structure it to make it sufficiently tax attractive to an investor?

This chapter seeks to address each of these points in turn, from a tax viewpoint. It will doubtless be appreciated that all comments made are generalizations, and appropriate advice should be sought on the application of the principles to your particular circumstances.

## Reconsider whether finance is actually needed

It may seem a bizarre comment, but business plans can often be critically amended so as to reduce or remove the need for funding. For example, what if growth were factored in at 5 per cent rather than 10 per cent, or what about the possibility of offering an early settlement discount? It is commercially less than sensible to raise funds simply to have a safety net or buffer in the form of cash in a bank account.

From a tax viewpoint, holding cash in excess of the needs of the business can, in certain circumstances, disqualify the company from being a ‘trading company’. This is important as when the time comes to sell the company, the availability of entrepreneur’s relief – the relief that restricts the capital gains tax (CGT) charge to 10 per cent for the first £1m of gain – may be compromised.

## Does it need to be external finance at all?

In many circumstances it is possible for the entrepreneur to find some way of financing the business using his or her own resources. Commonly this is through a remortgage of the family home, and introducing the funds raised to the business. Tax implications of this are as follows:

- Interest on the debt is tax deductible – under certain circumstances it can be possible to obtain tax relief even on the already existing mortgage.
- Capital gains made on the family home remain tax free.
- The step can reduce the inheritance tax burden – this is due to the fact that the increased mortgage is deductible from the value of the estate for inheritance tax purposes, while the corresponding asset – debt or shares in the trading business – can be eligible for business property relief.

## To lease or to buy?

When dealing with asset acquisitions, the question of whether it is better to buy or to lease the asset crops up.

So far as tax is concerned, the trade-off is between obtaining capital allowances – in effect, tax allowable depreciation – as against the general rule of obtaining tax relief on the rental payments.

## Is it best to raise finance through debt or equity?

In general terms, debt has a lower long-term cost. In addition, so far as tax is concerned within the business, the finance cost of debt – interest – is tax deductible, whereas the finance cost of equity – dividends – is not.

If the expectation is that the company itself will repay the finance raised, rather than, for example, a sale of the business to a third party, then again it will be both easier and more tax effective for the finance to be structured as debt rather than as equity.

For example, if £1m is needed on which an annual return of 15 per cent is required over a five year period, the total cost to a medium-sized company (assuming a 30 per

cent tax rate) would be £525,000 if structured as debt, compared to £750,000 as equity. If the funding needs to be redeemed at a premium of, for example, 20 per cent, then if structured as debt it would cost the company £140,000, but if structured as equity it would cost £200,000.

Based on the above, it is tempting to ask the question of why any business chooses to issue shares. The answers, which are important ones in understanding motivation, are as follows:

- Debt brings obligations to service and repay; the consequences of not doing so can be catastrophic for the business, ultimately being bankruptcy.
- Equity brings an expectation of servicing and redemption/sale, but with practical and legal difficulties of enforcement.
- Equity bolsters business balance sheets, making it easier for companies to attain credibility and a feeling of security. Debt, on the other hand, when taken to extreme levels, can cause the business to look unstable.
- Debt normally brings with it the requirement to give security – there may be insufficient assets to provide this.
- Investors may prefer to receive equity due to lower effective tax rates on dividend income than interest income.
- Investors may prefer to invest by way of equity for tax relief purposes – see next section.

## How does a company make equity tax efficient for the investor?

Government policy over many years has recognized the existence of the equity gap and has sought to address this through tax measures designed to encourage relatively wealthy individuals to invest in entrepreneurial companies. The principal one of these is the Enterprise Investment Scheme (EIS).

From an investor's viewpoint, EIS is a very worthwhile tax incentive. It has three key strands:

1. **Income tax credit:** A 20 per cent income tax credit is available for up to £400,000 of investment.
2. **CGT exemption:** On the shares which match the £400,000 investment, any gain made on them when a disposal eventually happens is exempt from CGT.
3. **CGT deferral:** Where an investor has gains elsewhere, an EIS investment can be used to effectively defer that tax due. This is without limit – the £400,000 cap does not apply.

To illustrate how effective the tax relief can be, take the example of an individual who has made a capital gain of £25,000, and is a higher-rate tax payer with taxable income of £100,000. By making a qualifying £25,000 investment he benefits immediately by:

20 per cent income tax credit	£5,000
18 per cent CGT deferral	£4,500

In context, he is getting nearly £10,000 of his investment back. There is also a knock-on effect on his income tax payments on account, which is a 6–12-month cash-flow advantage.

The CGT deferral is just that: when he sells – even if only for the same as he paid (£25,000) – the deferred gain re-emerges to tax. When the investment is sold at a gain, there is no CGT payable on that gain (other than the deferred amount).

From an investor's point of view, having EIS is an obvious preference – the tax advantages mitigate substantially the investment risk of investing in a small company.

As would be expected for such a generous relief, there are a number of qualifying conditions, which include:

- The company must be a qualifying trade (there is a lengthy list of non-qualifying trades, including hotels, nursing homes, farming and forestry to name but a few).
- The individual must be unconnected with the company both before and (in most cases) after the share issue.
- The company must be carrying on a trade in the United Kingdom.
- The shares will need to be owned for a minimum period and ongoing compliance with the qualifying conditions is needed. There can be no guaranteed exits.

It is also an important point to make that in most situations of investing in EIS companies, business property relief will normally be available after two years of ownership, meaning that the value of the shares should escape inheritance tax on the death of the shareholder.

## Concluding remarks

Raising finance is not a simple step in business. That said, it is something that most businesses need to do at some point in their corporate lives. Tax is a factor which needs to be borne in mind, so that the tax reliefs available are used to maximize the attractiveness of the investment to the investor, and to minimize the cost of the investment to the company.

Adrian Mole is a partner at Mazars specializing in looking after the tax affairs of owner-managed businesses and their shareholders. Mazars acts for some of the fastest-growing entrepreneurial companies in the United Kingdom, offering a complete range of accountancy and business advisory services including: audit and assurance, tax advisory and compliance, corporate recovery and insolvency, consulting, forensic and investigations, corporate finance and financial services for private individuals.

Tel: 020 7063 4330

E-mail: [adrian.mole@mazars.co.uk](mailto:adrian.mole@mazars.co.uk)

# Business turnarounds

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*Simon Plant and Daniel Plant at SFP discuss techniques for rescuing your business*

Like it or not, this is a situation facing some specific sectors of the United Kingdom economy and may knock on to other ancillary businesses, the longer adverse conditions persist. For many small businesses this is their first experience of such difficult conditions. For others they have seen it all before. For the fortunate ones, the conditions create opportunity, for some they spell financial ruin.

Recent changes in the law and developments in the types of financing now available means that financial obstacles or even insolvency do not necessarily spell the end for a business. As ever, the first port of call is to get good advice. Before you get to that stage you must overcome the most common of hurdles, recognizing and admitting that your business has a problem.

## Where do you go for reliable advice?

You need someone you can trust, but also someone who knows what they are talking about. It is an unfortunate truth that a small business is often run by one person, who makes decisions without taking advice.

You may start by approaching your accountant or bank manager, which is a responsible thing to do and, while the accountant may be owed money for your last audit fee, they may still give objective advice on how to proceed. Your bank manager has two options: provide short-term help to solve the problem or withdraw funding facilities. In either case they have a responsibility to recover sums advanced to you, which could affect objectivity.



Both of these are likely to refer you to an insolvency practitioner. These are individuals who are regulated by a number of professional bodies and have a duty to give sound objective advice. In some cases they will act for a lending institution directly, but they still have a duty to give you correct advice.

## When must you act?

If you are a director of a company that is insolvent, you should not carry on ordering goods on credit as you may be held liable for wrongful trading. This means that you could be ultimately found to be personally liable for the debts incurred when you knew that there was no reasonable prospect of them being paid.

Accordingly, if your business is struggling you need to act quickly. Your starting point is to ascertain whether or not your business is insolvent. There are two tests associated with this: cash flow insolvent or balance sheet insolvent. The best person to assist with making that determination would be an insolvency practitioner.

Such a determination may find that your business is viable in the long term, but that you have pressing creditor issues to address. Against this backdrop, your strategy moving forward may be to negotiate payment plans with your creditors or look to finance products which permit you to release equity in one way shape or form, provide you with instant cash flow.

## What are the options if your company is found to be insolvent?

If your company is found to be insolvent and you wish to continue to trade in one guise or another, there are two options available to you: a company voluntary arrangement (or CVA) or a pre-pack by way of an administration.

### A CVA

A CVA is when the company enters into an arrangement with its creditors to pay them a specific amount of the debt due to them as a dividend over a fixed period of time. CVAs typically run for 3 to 5 years. The amount of dividend that creditors will expect depends upon the financial circumstances. The CVA must be approved by the company's shareholders and creditors. The creditors will be looking to achieve a better realization through the arrangement than if the company was placed into an alternative insolvency regime such as liquidation or administration.

The acceptance of a CVA permits a company to continue to exist in its current form and look to trade out of its difficulties by reorganizing/rescheduling its debt. The company must have a plan going forward that it will return to profitability, while at all times having to service both new and old (ie pre-CVA) liabilities.

## ***Pre-pack administration***

A pre-pack is the transfer of an ailing company's business and assets to another entity, enabling it to have the benefit of the business without its liabilities. Pre-packs are associated with administrations, being an insolvency regime invoked by either a company's directors or its secured lender.

The placing of a company into administration is an extremely quick procedure and provides instant protection against creditor actions such as court proceedings, winding-up petitions and distraint by way of a statutory moratorium. Further, an administrator is appointed as at the date of the placing of a company into administration. He is empowered at that point to take full control of the company and its affairs.

The primary duty of an administrator is to maximize realizations. The best realization that can be achieved is the sale of a company's business and assets on a going-concern basis. The administrator must, however, ensure that he gets the best price and accordingly he cannot simply sell to the old management in a newly incorporated vehicle without considering alternatives. He is therefore guided by the time frame that he is able to work within (ie if there are enough funds available to continue to trade the business while it is marketed) and his independent valuer.

## **What about the employees?**

Generally, business owners feel extremely responsible for safeguarding the jobs of those they employ. Taking the right advice at an early stage may well protect staff both in terms of wages owed and the continuity of employment.

Should an insolvency regime looking to save the company or business and assets be the right course of action, employees' rights are in the main protected. In the event of a CVA, the company remains in its current form and staff's contracts continue, notwithstanding the arrangement with creditors. In a pre-pack administration, employees are automatically transferred with the business and assets to the purchasing entity, pursuant to the Transfer of Undertakings Regulations.

## **What are the options if your company is not insolvent?**

If your business is not insolvent but you are facing creditor pressure, you need to identify areas of potential investment finance. The commonest forms are obtaining a loan or seeking asset-based lending by way of financing tangible assets or factoring/discounting the business debtor book.

It is, of course, possible that the management of the business may be able to raise capital through mortgaging personal property, although given the current financial climate this may not be the most advisable route.

Any form of lending from a bank will require security by way of a legal charge or fixed and floating charge debenture. The difficulty with this route is that in ensuring that it is adequately secured, the bank will have more regard to a business's financial history and ultimate profitability than the value of its assets.

Conversely, asset-based lenders and financiers providing factoring and invoice discounting facilities tend to be more flexible, having more (but not necessarily overall) regard to the intrinsic value of the asset that they are funding against. This enables them to move quickly and resolve a business's cash-flow difficulties in a speedy fashion.

## **How can an asset-based lender assist in an insolvency scenario?**

The majority of asset-based lenders and factors/discounters are used to acting within tight deadlines and are well placed to raise the sort of sum likely to make a pre-pack possible. Such lenders are accustomed to acting in insolvency scenarios, being well versed in this area of the law and exercising the level of commerciality that traditional lenders may not be prepared to entertain.

This can create an unusual pairing, namely a method of raising funds to purchase the company's business and assets from its administrator and subsequently providing a finance line which may well assist in ensuring that the same mistakes are not made again.

SFP is a corporate recovery and turnaround specialist with nationwide coverage, based in Canary Wharf, London. It was formed by licensed insolvency practitioners Simon and Daniel Plant in 2002.

The partners have between them more than 30 years' insolvency-related experience in the accountancy and legal professions.

As a result of its extensive knowledge, SFP is instructed to advise and work alongside numerous financiers, quoted and privately owned companies and individuals nationwide in the fields of finance, turnaround and insolvency.

Further details from SFP, 9 Ensign House, Admirals Way, Marsh Wall, Docklands, London E14 9XQ  
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# Financial reporting for the growing business

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*Don't just leave it to the accountants, say Philip Pickles and Jon Sutton at Dixon Wilson. Make sure you are capturing any challenges and risks to growth in your flow of management information*

The directors of a growing company should rightly focus their attention on strategies to expand the business. They will also be aware of the importance of sound financial reporting as an essential tool for good management of the business as it expands. What may be less evident is that, just as it is necessary to make operational changes as a business grows, so it is also necessary to ensure that the company's financial reporting is developed to match the needs created by the growth of the business.

## Getting the basics right

Where a business is expanding, the existing accounting systems need to be able to cope with the increased volume of transactions in order to avoid delay and increased risk of mistakes if pressure is put on the existing systems or established internal controls break down. Attention is needed to the number and calibre of staff dealing with the accounting function as well as the paper or electronic information systems in place.

It may even be necessary to introduce more comprehensive management information systems in anticipation of growth rather than delay until the point where the business cannot service its turnover without them.

One advantage of growth is that the business is likely to become increasingly self-sufficient in terms of administrative resources. In its early stages, the business may have outsourced some of its accounting and financial administration tasks, such as management accounting, VAT or payroll. As additional staff are recruited, the point will be reached where it is more economic to deal with these matters in-house.

## Striking the balance – detail vs focus

There is a natural tendency for the amount of management accounting information to increase over time; this will happen even more when a business is growing, giving rise to new streams of data. An expanding business brings with it new reporting requirements, including:

- analysis of the profitability of the business in order to identify those areas where greatest effort and the often limited resources of the business should be invested, for instance to develop a product of proven profitability, or to take remedial action where part of the business appears to be struggling;
- monitoring cash generation – is the business managing to generate the cash it will need in order to finance growth, or is it over-trading, with revenue absorbed by the need to fund increasing amounts of working capital? Could the company cope financially with a substantial increase in orders for one of its product lines? This is arguably the single most important function of the accounting system for a growing business with limited resources.

The board may wish to see information in addition to that normally contained in the accounting records, including the order book and the results of product quality control testing (as an increase in the number of rejected items may be an indication that the productive facilities are not coping well with increased volume).

As the amount of available data increases, it is important to focus the mind by identifying key indicators and benchmarks against which to evaluate performance. In addition to sales, profit margin and cash-flow targets, the directors of an expanding business should be aware of the level of sales or advance orders at which trading volumes may begin to stretch the company's physical capacity or its ability to finance the additional working capital required. It is essential for projections to include sensitivity analysis for varying volumes.

## Striking the balance – timeliness vs quality

In order to serve their purpose, management accounts must be ready soon after the period end, so that the board can identify potential problems and opportunities in good time. In order to achieve this, it may be appropriate for a smaller company with limited resources to work with a fairly broad brush.

A likely consequence of growth is a greater interest on the part of various stakeholders in the company's management information – shareholders may require interim profit statements, and lenders may wish to monitor compliance with financial

covenants at various times in the financial year. This will require a greater degree of accuracy than hitherto, especially in respect of the balance sheet (whereas previously a company's management accounting may have focused largely on the operating result and cash flow). It will also be more important to ensure that accounting policies are appropriate, and kept up to date at all times in the year rather than as part of the year-end reporting exercise.

A growing company will also at some point reach the level of profitability at which corporation tax must be paid in instalments, and it will need accurate figures in order to avoid either paying too much tax or incurring interest on late payment.

## Statutory financial reporting

The burden of compliance with the statutory financial reporting regime becomes more onerous as a company grows. This can be dealt with in the course of the year-end work, but to leave it until then may result in delays while the accounts department compiles additional information, or unwelcome surprises following the introduction of new accounting policies. Additional requirements will also be imposed if a company's shares are admitted to full listing or to the Unlisted Securities Market.

Good channels of communication with the company's auditors can help to ensure that changes in statutory accounting requirements are addressed in good time. This communication needs to be two-way, with the auditors briefing on new accounting requirements, and themselves being kept up to date with significant changes in the business.

## Coming to grips with acquisitions

If new subsidiaries or businesses have been acquired, their accounting arrangements must be reviewed to ensure that they are:

- capable of producing timely and accurate management information;
- protected by robust systems of internal control; and
- compatible with the parent company's systems in terms of accounting policies and presentation.

Care may also be needed to ensure that the reporting of results is appropriate for group purposes, so that, for example, consolidated figures are produced where these will aid understanding of the financial position, and shared costs are appropriately allocated between operations carried on by different companies in the group.

## Choosing the right finance team

A business which is growing rapidly will place greater demands on its finance team than a business which is ticking over at the same level.

The senior members of the team will need to be able not only to manage the existing accounting function, but to be proactive in identifying changes which will be

needed as the business grows, and manage the implementation of these changes. Choice of the correct personnel is critically important, as members of the board may not themselves possess the requisite skills.

## Conclusion

The accounting function of a business is important not only to enable it to comply with external reporting requirements, but to enable it to carry on its business in a well-organized manner and to allow the directors to be well informed about the state of the company's financial health. The needs of a business in this respect change over time, and may change quickly in a period of rapid growth. The directors must be aware of this, and be confident that the arrangements in place will be sufficient to address both the status quo and any future challenges.

Philip Pickles and Jon Sutton are partners in Dixon Wilson, a London-based firm of chartered accountants which has a long experience of providing a wide range of services to entrepreneurs and growing businesses. They would be pleased to hear from readers, and may be contacted at [philippickles@dixonwilson.co.uk](mailto:philippickles@dixonwilson.co.uk) or [jonsutton@dixonwilson.co.uk](mailto:jonsutton@dixonwilson.co.uk).



## Going public – the route to PLUS

**Major changes in European equity capital markets have taken place and there are more markets for small and medium-sized companies to choose from than ever before. Companies need to know what their options are when looking to raise capital and grow their business. PLUS Markets Group provides competition and choice in these markets, right at the heart of the City of London.**

PLUS Markets Group plc (PLUS) is the United Kingdom's new, independent stock market for small and mid-cap companies based in London. It was recently granted Recognized Investment Exchange (RIE) status by the Financial Services Authority, opening up the market to a wider pool of investors and supporting equity fundraising for companies on PLUS. It offers a full range of services for companies, funds or market professionals seeking access to London's vibrant and liquid capital markets.

PLUS have expanded their offering to cover some 7,500 equities, including all UK listed equities, liquid European equities and unlisted equities quoted on the AIM and PLUS markets.

The secondary market trading platform is based on a quote-driven model, the most efficient and effective system for trading shares in small and mid-cap companies. Market makers commit their own capital to the market, playing a key role in providing both price formation and liquidity. Nearly 50 brokers and 7 market makers are active on PLUS. Transaction data and current bid-offer information is shown electronically and distributed to the market via leading data vendors.

PLUS is committed to providing investors with a market dedicated to offering quality investment opportunities. Investors are assured that PLUS is a select listing destination offering the best investment value due to stringent regulatory control and a particular focus on investor protection which has played a strong role in the company's business model.

PLUS competes directly with traditional exchanges with its offering of both listing and trading market services. Companies can access PLUS by having their shares traded on the PLUS quote-driven trading platform while listed or quoted elsewhere, or by being quoted on the PLUS primary market

There are two options for companies wishing to enter the PLUS markets: the PLUS-listed and PLUS-quoted.

PLUS-listed is a primary market for established companies and the largest funds, who are seeking a full UKLA listing and a presence on an EU regulated market.

The PLUS-quoted market is dedicated to the needs of growing companies seeking access to a public market for the first time, whether to raise capital or enhance the profile of their business.

This article focuses specifically on PLUS-quoted market and the benefits it has to offer small and mid-cap companies and how to access those benefits.

PLUS-quoted welcomes ambitious, well-managed small and mid-cap companies from the UNITED KINGDOM or overseas. The entry criteria are clear and transparent, and companies are supported throughout by the PLUS team of experienced market professionals. Because PLUS is an RIE, companies can raise capital to fund their growth from a wide range of institutional and private investors – and those investors benefit from a range of tax advantages designed to encourage the growth of smaller companies.

### **Floating on a public market**

The most frequently named benefits of coming to a public market is the ability to raise equity finance and raise a company's profile. PLUS has proven to be a successful source of equity finance for growing companies, and offers a profile in a dedicated smaller companies marketplace. Most importantly, the success of a public market is measured on the ability for existing issuers to be able to tap into the pool of capital and raise further funds to finance their growth.

A PLUS quotation can:

- provide the wider market with the confidence that a company has gone through a rigorous scrutiny process;
- provide an independent valuation for the business, allowing traded companies to use shares as an acquisition currency;
- help existing shareholders to realize the value of their investment by providing a trading facility in the company's shares; and
- support employee share schemes and share option schemes to incentivize, retain and motivate employees and to attract new employees.

### **Is PLUS the right market?**

PLUS offers profile, liquidity, an audience receptive to growth and an environment where management can devote as much energy as possible to doing what their shareholders want them to do – run the business. The PLUS team are experts in understanding the needs of companies, their advisers and their investors.

PLUS is a disclosure-based market which is dedicated to the needs of small and medium-sized companies, especially when it comes to regulation. There is a clear and straightforward admission process which means that there are no specific eligibility criteria, but companies are required to satisfy certain standards.

#### Key benefits of PLUS:

- Ability to raise funds from a deep capital pool of institutional and private investors. Tap into the world's deepest pool of liquidity and the home of specialist small and mid-cap investors.
- Increases a company's ability to punch above its weight and enhances a company's profile, improving visibility and impact, in particular with potential new customers who may become aware of the company for the first time.
- Greater access to UK retail investors who drive liquidity via the leading broker dealer members of PLUS.
- Robust but less onerous due diligence process; clear and straightforward admissions process where the PLUS Regulation team works with the company's advisers during flotation.
- Focus on investor protection through high regulatory standards but with a straightforward approach, leaving the company to grow the business.
- Cost-effective access to the public markets, offering better value to companies and investors.
- Tax benefits for investors including capital gains tax and inheritance tax reliefs, eligibility for venture capital trusts and enterprise investment schemes. As a result of the Chancellor's increasing restriction on qualifying criteria for these schemes, many investors, including VCT funds, are investing in the kind of companies that would typically come to PLUS. PLUS-quoted securities are also eligible for inclusion in self-invested pension plans (SIPPs).

#### **Are you ready for PLUS?**

The decision to be admitted to trading on any public market should be based on whether the objectives of a flotation will help achieve the company's business goals. A cost-benefit analysis might be undertaken and, in addition, the directors must also make an objective assessment of the company. This might include a review of its business plan and growth prospects, its stage of development, the management team and its internal procedures.

#### *Admission criteria for PLUS*

Companies seeking to become a PLUS-quoted company need to fulfil the PLUS admission criteria and adhere to the PLUS Rules for Issuers before being admitted to the market. A company will need to:

- appoint and retain at all times a PLUS Corporate Adviser;
- although there is no requirement to retain a broker, any company committed to investor relations and which is likely to use the market for further fund raising is encouraged to do so;

- demonstrate appropriate levels of corporate governance. In practice, this means that a company should have at least one independent non-executive director;
- have published audited reports and accounts no more than nine months prior to the date of admission to trading;
- have adequate working capital;
- have no restrictions on the transferability of shares; and
- have shares which are eligible for electronic settlement.

Depending on the flotation objectives, a company can access the market via a number of different routes.

#### *Introduction without raising funds*

- This is the most straightforward way of joining the market.
- Suitable for companies not raising any funds but looking to raise their profile or obtain an independent valuation of their business.
- The PLUS Corporate Adviser files an admission announcement with completed application forms and supporting documentation.
- No admission document or formal prospectus required.

#### *Private placement*

- The next most cost-effective way of becoming PLUS-quoted.
- Suitable for companies raising funds from a select number of potential investors (maximum 100 people).
- The PLUS Corporate Adviser files a private placement memorandum.
- The memorandum is not for public release as it does not have to go into as much detail as an admission document or full prospectus.

#### *Initial public offering (IPO)*

- A more costly and time-consuming way of becoming a PLUS-quoted company due to the detail and verification work that goes into producing a full prospectus.
- Suitable for a company raising money from the widest pool of investors available.
- Full prospectus required (unless the offering is less than €2.5 million).
- For an IPO of less than €2.5 million, a PLUS admission document is required.

Admission costs depend on the 'readiness' of the company for a public market. Companies should speak to a number of PLUS Corporate Advisers to obtain an accurate cost estimate.

### *The PLUS advisory team*

**The PLUS Corporate Adviser** – a regulated member of PLUS, authorized to bring companies to the market and provide advice on continuing obligations. They have an obligation to ensure that a company is suitable for the market, providing advice on the eligibility and disclosure obligations of the PLUS Rules for Issuers.

**The Solicitor** – will advise on preparing the terms of engagement for the advisory team and advise on the preparation of the prospectus, admission document or private placement memorandum. They may also advise on any necessary constitutional changes and on any changes that need to be made to the board.

**The Reporting Accountant** – is responsible to both the company and the PLUS Corporate Adviser and will carry out the financial due diligence on the company. They will prepare the Working Capital Report, Long Form Report and possibly a Pro Forma Statement of Net Assets.

**The Registrar** – will have input into the application section of the prospectus and establishes the share register. During the fundraising the registrar will also receive applications and monies submitted. The registrar maintains a record of the share register on an ongoing basis.

**The Financial PR/IR firm** – should have an excellent understanding of the growth company arena, your business model and ambitions, as well as having key media and City contacts UK-wide.

### *Continuing obligations*

Companies quoted on PLUS must comply with the PLUS Rules for Issuers and ensure that the market is kept informed of developments or information that may impact on the financial situation of the company. All information must be disseminated via Newstrack PLUS, the in-house regulatory news service. The company's directors, in conjunction with the PLUS Corporate Adviser, are responsible for ensuring that the company complies with its continuing obligations. Once admitted to the market, a company's shares are traded on PLUS and are visible to the market through leading data vendors, allowing investors to access a consolidated view of all UK trading activity.

### **Conclusion**

PLUS is a market specifically designed for small and mid-cap companies. It offers a gateway to the London-based investment community, a pool of liquidity in which a rapidly growing number of shares are traded, and a regulatory environment suited to the needs of smaller quoted companies.

# Exits and succession

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# Developing an exit strategy

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*To protect the value of your business, have an exit plan, says Thomas Picton at Sunbelt*

What is an exit from a business? It can be as emotionally violent as a bankruptcy or be a quiet closing with all debts paid. A business owner may get an offer that they can't refuse and be set up for life or their next business. Owners can plan to sell at a good time: take the money and run. It can also be passed on to their heirs. An exit strategy means simply that owners have planned that transition and they are ready to take advantage of good opportunities.

What's the business worth? What does one want it to be worth? How does one recognize when it's time to leave? A business plan is the blueprint to get you to that level and the exit strategy guides the owner on when to cash out.

It may surprise you to learn that over 70 per cent of former business owners regret selling their companies less than a year after the sale. What accounts for this seller's remorse? The main reason is lack of preparation on the part of the business owner.

A recent survey showed that the number one reason business exits fail is due to a lack of planning on the part of the owner.<sup>1</sup> A separate study showed that most business owners spend more time planning their family holidays than they do planning how and when to exit their business. Rather than being proactive, most business owners are reactive and 'forced' to sell because of burnout, health issues, marital problems or business conditions without the time to prepare correctly. As a result, most business owners exit their companies at the worst time possible. Therefore,



developing an exit plan is the most important thing a business owner can do to protect the value of their business.

What is an exit plan? An exit plan is a comprehensive road map that addresses all of the business, personal, financial, legal and tax issues involved in selling a privately owned business. A good exit plan includes contingencies for illness, burnout, divorce, and even the death of the owner. Its purpose is to ensure the survival of the business; to provide continuity to the employees, customers, vendors; and to preserve wealth for the business owner's family.

Without a predetermined exit plan, the business owner will probably:

- undervalue the company and leave hard-earned wealth on the table;
- pay too much in taxes; and
- lose control over the process by being reactive, rather than proactive.

On the other hand, a well-designed and implemented exit plan enables the business owner to:

- control how and when they exit;
- maximize company value in good times and bad;
- minimize or eliminate capital gains taxes;
- ensure they achieve their business and personal goals;
- have strategic options from which to choose; and
- reduce uncertainty for the owner's family and employees.

To be effective, a good exit plan must include these *six* essential components.

1. It should include a concise statement of the business goals, personal goals, and family/estate goals. This step is essential to ensure that all of the goals are consistent and set the direction for the rest of the analysis.
2. An exit plan should contain a detailed business valuation to establish a baseline value for the business.
3. The plan should help the business owner identify specific ways to enhance the value of the business prior to an exit.
4. A good plan should contain an analysis of the pros and cons of the different exit alternatives, such as a third party sale, management buyout, family succession, or liquidation.
5. A good plan should provide suggestions to minimize any capital gains, ordinary income, and estate taxes related to the exit.
6. The analysis should contain an action plan that details the specific personal and business steps that the owner must take in order to prepare for the exit.

Perhaps the most important thing to remember is that developing a good exit plan is a multidisciplinary endeavour. No single professional advisor has all of the expertise needed to design a comprehensive, integrated exit plan. The best exit plans incorporate input from a team of advisors that includes:

- a business lawyer with commercial experience;
- a financial adviser or wealth management professional who does planning work;
- a tax specialist who is versed in the latest tax issues;
- an insurance professional; and
- a brokerage firm that specializes in exit planning.

Sticking to the exit plan is just as important as having one. Business owners should meet their advisers on a regular basis to ensure that crucial steps are being completed on schedule. Nobody likes to pay unnecessary fees, but the cost of developing a good exit plan is usually tiny compared to the additional value received at the time of sale. After all, exiting the business is probably going to be the most important deal of the business owner's lifetime. Don't just roll it off the cuff.

Any exit plan should be focused on two main objectives: 1) maximizing the company's value prior to exit, and 2) ensuring that the business owner accomplishes all of their business and personal objectives as part of the exit. Venture capital firms and private equity groups never invest in a company without having a clearly defined exit plan in place first, so why shouldn't all businesses? It is never too early to create your exit plan.

Thomas Picton is the senior broker at Sunbelt Avon & West, Bristol, part of the International Sunbelt Network. Their specialist services include business sales and acquisitions and exit planning services to the SME market. Their exit planning service brings together an experienced and comprehensive team of experts to assist and guide business owners in planning for and executing the best exit from their business.

Tel: 0117 945 8770

E-mail: [tpicton@sunbeltnetwork.com](mailto:tpicton@sunbeltnetwork.com)

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<sup>1</sup> Source: PriceWaterhouseCoopers, *Whose Business Is It Anyway?*

# Exit options

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*You have eight options in preparing for the inevitable, says Thomas Picton at Sunbelt*

Baron Rothschild, when asked how he became rich, replied ‘I always sell too soon’. By that, he meant he never waited to get out of a business at the very top price. He sold while the price was still rising and by doing so minimized the chances of losing money on any of his investments and businesses.

Every business owner has an inevitable day when they will no longer own their business. Benjamin Franklin wrote ‘Nothing is certain but death and taxes’, and he was right. By planning your exit from your business, though, you can leave at the best time for you, your family and your investors.

If you are a business owner thinking about how to leave your business, you have a finite number of options to consider. Here’s a brief summary of these options:

1. Sell or give your company to a family member.
2. Sell your business to one or more key employees.
3. Sell your business to other shareholders.
4. Sell to an outside third party.
5. Bring in an outside investor and keep a minority interest.
6. Go public.
7. Hire a management team to take over and become a passive owner.
8. Liquidate your business.

It takes a lot of time and dedication to build a business that will be profitable, even more if you want it to grow very, very quickly. Although it is possible for people to

sustain 80–90-hour weeks for a couple of years, most people function at their very best with no more than 55–60 hours a week at work. Beyond that, they start spinning their wheels and are not as productive as they should be. Once you’ve built your business to a certain point – and that will vary from business owner to business owner – consider making changes that will allow you to sustain growth without dedicating every hour, waking or sleeping, to your company.

One of those changes will be to start delegating a lot of your operations to someone else. This is good for you, because it will give you the opportunity to focus on your business strategy, your management team, your customers and the ‘big picture’. It also will help you to position the company so that you can take advantage of any opportunities that may occur and prepare to stimulate opportunities as well.

What are typical exits for business owners? If everything goes well, for the typical small business, it provides a nice income for the owner and is then sold for a good price. The key to a successful exit here is to make sure that your business will bring a top price for its category and location. Small business owners with an eye to exit can manage the business’s income for a couple of years before seeking a sale. Boosting income can be accomplished in a number of ways. One way, of course, is to boost revenues. Top-line growth is best, if you can maintain or improve your profit margins. You can also reduce expenditures, by deferring capital expenditures, reducing training and business travel and entertainment. Use a reputable accounting firm, even if you have never before done so, because financial statements that have been audited have credibility. The offers given to small businesses often discount valuation if there is a chance that the financials are inaccurate. With a clean audit by a good accounting firm, you prove your business’s past performance and can justify full valuation in your asking price.

Sometimes, it makes more sense to exit by closing the business at the end. This often happens when the underlying real estate has become valuable – good for you if you own it, bad if you are leasing and the landlord declines to renew the lease or proposes such a change in rent that your business cannot continue to be profitable. A planned store closing can be very profitable. Companies that specialize in liquidation sales are very profitable and usually buy high-margin, cheap stock specifically for the ‘going out of business’ sales. If you are running your own sale, that may not be how you wish to be remembered in the business, but you should consider stocking up on items you know will sell based on past experience.

Bankruptcy can, in some cases, be a good exit from your business. A bankruptcy can be used to reorganize the business and allow you to continue operating it. It also works to salvage it and allow someone else such as a creditor to operate and sell it. Finally, it can be a clean break from your old debts and obligations.

Another good exit is to develop close relationships with other businesses that may be interested in acquiring you in the future. Although they can be competitors, it’s usually best if they are not exactly in your market niche. Your most promising opportunities will come from businesses with which you have a strategic fit, where your business makes theirs stronger and vice versa. Those are also companies you may decide to acquire if you have the resources and they appear to be available. The closer the relationship that you have with them, the better you can value each other.

If your company is growing well and needs ready access to large amounts of money to continue that growth, you may want to consider positioning it for an IPO (initial prospectus offering.) This is a very expensive and involved process that allows your company to sell stock to the public. Over the past few years, some internet firms were brought to market well before really being established businesses with real revenues and profits. When the cash window at the stock market is open, you may make a great deal more money selling stock in the company than you can in selling the company itself. An IPO is also a very valid strategy to use if you need to raise a lot of money and have access to the capital markets on a continuing basis. One thing to consider, if your company does IPO, is that you will have to follow very stringent accounting rules. A lot of information about your company will be filed with the government and will be accessible to the public, including to your competitors.

A great way for someone who has built a business over the years to cash out is by selling it to someone who intimately understands all of the operations and realizes the company value. In a small business, you may have an assistant who would be interested in buying your business. It is often good to offer them part-ownership to start, and then sell them more of the business until they have full ownership. There are a number of ways to finance this. If you know that they are good and that the business is solid, you may consider carrying the financing for the purchase. It's worth spending some money on a good lawyer when drawing up the sale contract. An enforceable contract can protect you from unexpected business problems.

Larger companies often require more cash and a good source of buyers is the company managers. Often they will not have the money to buy you out, and you may not want to receive steady payments. These buyers, with a proven industry track record and your company's solid assets, may be able to get the money from investment bankers or private equity companies. This process is known as an MBO or management buyout.

The end for many business owners can actually be their own 'final exit'. If it is unanticipated, a number of unpleasant things can happen to your business and your heirs. At the very least, no matter how young you are, you should know who is going to end up with the responsibility of running the business and who will get the benefit of owning it. Often these will be family members but they can be trusted associates or organizations that provide needed services. You can even set up your own family foundation and leave the business or its proceeds to support purposes that you have specifically chosen. The key to success here is to pick trustees who will follow your wishes as well as your will.

If you do intend to leave a profitable business to your heirs, rather than to a charity or foundation, it is a good idea to transfer ownership to them in an orderly way that will minimize your tax liabilities. A good estate planner will be able to help you structure the transfer so that taxes and other liabilities will be reduced and you can feel safe that the government will get what it is owed and not a penny more.

Determining exactly *which* option is right for you is a challenge that many business owners put off until it is too late. Opportunities pass with time. If you wish to 'leave your business on your terms and on your timetable', you need to be proactive about understanding your exit options.

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E-mail: [tpicton@sunbeltnetwork.com](mailto:tpicton@sunbeltnetwork.com)

## Grown it? Sell it?

Growing a company, although rewarding, can be a long, arduous and time consuming task. Is now the time to consider passing the workload on and enjoying the fruits of your labour?

If it could be, why not talk to us and find out more about how we can help your business sell and achieve a maximised sale price? We help more privately owned businesses sell than anyone else, achieving sale prices an average of 2.5 times more than the first offer received.

Last year over 2200 business owners booked into our seminars and 800 spoke to us personally about maximising the sale price of their business. To meet and talk to one of our Business Managers confidentially simply call **01635 299616** or visit **[www.bcmscorporate.com](http://www.bcmscorporate.com)** for more information and to book into a seminar.



# Selling for maximum value

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*Malcolm Murray at BCMS Corporate on the four key factors that influence a sale*

To ensure that the offers for a vendor's business are maximized, the business must follow four critical steps in the sale process if it is to generate the highest possible sale price. These four steps are as follows.

## **Avoid passivity**

A significant number of potential acquirers are often not considering an acquisition. Because of this, the only method of locating these acquirers is through proactive searching. All businesses sell their own products by actively generating sales leads, so why shouldn't the sale of the business itself follow the same process?

Traditional methods for selling privately owned companies involve appallingly low levels of selling activity and enquiry generation. If this stage is not completed thoroughly and comprehensively it will have a profound effect on the ultimate success of the sale. Indeed, failure at this stage is the main reason why the vast majority of privately owned companies fail to sell.



## Motives for purchase

A potential strategic acquirers' motives for buying a business can be diverse. However, of all the motives, the two which remain the most important are:

- quality, stability and longevity of the client base and the ability to cross sell existing products to each business's customer bases;
- growth potential not only in terms of the above but also in terms of generating a wider range of products or 'full service' offering to potential new customers, thus improving competitiveness and the ability to grow the businesses at an increased rate.

A strategic buyer may also carefully consider the some or all of the following:

- the acquisition of key people and/or technologies within the company;
- brand/reputation of the business;
- implications of an existing competitor acquiring the vendor's business;
- access to the UK market (overseas acquirers).

It is worthy of note that while the quality of a client base and potential for growth are the major reasons why a premium price is paid, **ROI is the least mentioned reason**. That raises a valid question: Why do business owners so often take this, the least important aspect of the buying criteria, and make that the basis of their business valuation?

The reason for this is that the value of a business is about the **motives of the purchaser and not simply multiples of profit**. If the value of a business could simply be calculated as multiples of profit all bids would be almost identical; however, in reality this almost never happens.

## Creating bidder competition

This factor influences saleability more than any other! Generating a choice of buyers creates, effectively, a 'market' for the vendor's business. Potential acquirers forming the 'market' must be strategically motivated and financially strong. Competition for a vendor's business influences:

- The speed of the sale: In a competitive environment potential acquirers become less concerned with minor issues regarding the business due to 'pressure', perceived or otherwise, from competing acquirers. Businesses sold using a competitive bidding environment carry far greater momentum than typical 'non-competitive' sales. Additionally, when a potential acquirer knows that the vendor can walk away at any point in the process and that deadlock is not an enemy but an ally to them, the sale process is far less likely to encounter problems.
- The price achieved: Of all of the factors that will influence price upwardly the greatest is, as stated above, generation of a competitive bidding environment.

While this is true of any negotiation, it remains the most compromised element of traditional sales.

- The terms of the deal: The decision whether a vendor sells for shares or cash, whether 100 per cent, 80 per cent or 50 per cent of cash is received ‘up front’ or whether the vendor leaves the business immediately or after a specified period is all influenced by choice more than any other factor.

It is fair to say that by establishing choice the vendor is able to control negotiations. Without it the vendor will always have to concede first. The ability to walk away from a deal can sometimes be a vendor’s greatest asset.

## Future potential

Business acquirers buy future potential, not past history. This may seem perfectly logical and indeed it is; however, despite this, many business ‘valuations’, ie those which are valued using traditional methods, are entrenched in calculating return on investment figures using historic accounts. As any business owner knows only too well, past performance is never a guarantee of future performance.

A business plan, produced by the vendor and detailing how the company could perform in three years’ time under new ownership, will be the most essential document in the sale process. The business plan should show the performance of the company once the acquirer has applied its resources, finances and sales activity and brought its client base to bear on the vendor’s products and services.

BCMS Corporate was founded in 1987 by the current owners, Brian, David and Stephen Rebbettes. Over the past decade, BCMS Corporate has evolved into the UK market leader for selling privately owned companies. This success, based on a unique, proactive approach to the selling process, has generated average sale prices 220 per cent higher than the initial bid.

BCMS Corporate employs over 140 personnel across 4 offices in the UK, with further offices and staff in North America, Scandinavia, the Mediterranean and Latin America. In 2007, BCMS Corporate won the ‘Best family business of the year’ award from Coutts Bank.

# Preparing a business for sale

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*Start grooming to make yourself more attractive, says Peter Gray at Cavendish Corporate Finance*

It will never be possible to maximize the proceeds of a company sale unless time is taken before the sale commences to prepare the business for sale. A grooming exercise, which can take place over a few months or even years before a sale exercise, aims to enhance the attractiveness and value of the business to potential purchasers. This is achieved by measures such as:

- positioning the company to maximize value;
- strengthening the company's second-tier management;
- improving margins via cost reductions or selective price increases;
- reviewing the company's accounting policies;
- widening the company's customer and supplier base.

A review of the business to determine appropriate pre-sale grooming measures should cover the following areas.

## Positioning

At an early stage, consideration should be given to the types of potential purchaser who might be interested in the company and the valuation which they may attribute to

the company. Based on that evaluation, an attempt should be made to maximize the attractiveness of the company to that category of purchasers. One of the best examples of positioning in UK M&A history was the Seattle Coffee Company, which, knowing that Starbucks would at some stage wish to enter the UK market, replicated completely the Starbucks model with a view to being acquired by Starbucks when it did make a decision to enter the UK market. When the inevitable happened, Starbucks acquired Seattle for approximately £1m per unit.

## **Financial matters**

### ***Margins review***

A business may historically have priced its products with its long-term future in mind, and, in particular, to deter potential entrants. In a situation where a business enjoys some degree of market power, research could be undertaken to see if a period of higher prices could be sustained in the lead-up to a sale to enhance profitability.

### ***Review of costs***

A review should be undertaken to identify all costs which would not be incurred by an incoming purchaser. While a purchaser will generally not be prepared to give the vendor 100 per cent of the value attributable to these cost savings, in a competitive auction involving other acquirers who would benefit from the same cost savings, to win the deal, a purchaser will need to cede some of the value to the vendor.

In addition, a vendor should conduct a purge on costs, to eliminate excessive and unnecessary costs. If a purchaser is paying the vendor 10 times earnings, every £1 of cost savings will translate into £10 of value.

Finally, research and development expenditure and advertising costs should be reviewed to ensure that they are primarily focused on producing shorter-term results which will have a near-term rather than longer-term impact on profits.

## **Strategic/operational matters**

### ***Improving earnings quality***

One of the most significant ways in which a company can enhance its value and attractiveness to purchasers is by improving its quality of earnings and risk profile.

Smaller companies tend to have a higher risk profile due to the fact that they have a reliance on a small number of customers. In some cases they may also be over-reliant on one or two suppliers.

A company whose largest customer accounts for less than 10 per cent of its revenues will be viewed much more favourably than one whose largest customer represents over 50 per cent of its revenue base. In the latter case, loss of the major customer is likely to result in the company experiencing severe financial difficulty. In the lead-up to a sale, a company should therefore make every effort to widen its client base, even if this may mean restricting business volumes with the key customer.

## ***Assets review***

When a business has assets which may not be required or fully valued by a purchaser, such as surplus property and investments, removal before a sale exercise commences should be considered.

In addition, working capital should be reduced to the minimum level required to generate the company's profit stream. Policies concerning stock-holding levels, debtors and creditors should therefore be reviewed at an early stage to ensure that there is no 'fat' in working capital. If the company is sold with excess stocks or, due to poor credit collection, excess levels of debtors, the vendor is, in effect, gifting the surplus to the purchaser. Any such surplus should be eliminated and the resultant cash either stripped out or (preferably from a tax perspective) added to the purchase price.

Any hidden or undervalued assets of the business should also be identified. If the value of the property assets is understated in the company's balance sheet relative to their market value, they should be revalued independently prior to a sale.

## ***Tax review***

All PAYE, VAT and corporate tax matters should be up to date. Tax allowances, if appropriate, should be maximized, and tax computations agreed with HM Revenue & Customs. Any tax losses available to be carried forward should be identified.

## ***Pension schemes***

Final salary schemes can give rise to enormous valuation issues on a sale. Where such a scheme exists an attempt should be made to resolve these issues prior to a sale. This may involve commuting the final salary scheme into a defined contribution scheme.

## ***Management review***

The quality of the company's management team will generally be of paramount importance to a purchaser, especially where the owner/managers are proposing to leave the business at the time of, or shortly after, a sale. It is important to be able to convince the purchaser that there are competent second-tier management available to assume executive control of the business. This will involve devolution of management control by the owners in the lead-up to a sale; where second-line management are taking executive decisions, this should be documented. For evidentiary purposes, it may help to recognize their input formally by:

- minuting management meetings;
- issuing formal job descriptions; and/or
- considering job titles and reviewing organizational structures.

Purchasers attach considerable weight to job titles. For that reason, promotion of senior management to the board of directors in advance of a sale will make it easier to

convince a purchaser that there will be a self-sufficient management team in place following their departure.

It might also help for the owner/managers to take an extended holiday before the sale to show the purchaser that the business can operate effectively in their absence.

Obtaining the buy-in of senior management to a sale process is extremely important. This may involve putting in place a management incentive scheme which vests on the sale of the company, preferably with a deferred element to assist with management retention.

Also, to ensure that there is not a mass exodus of senior management following a sale, most purchasers will wish to see key management secured with service contracts.

### ***Staffing review***

Any redundancies made once negotiations with a third party have commenced will normally be treated as unfair dismissal by an industrial tribunal. Accordingly, staffing levels should be reviewed before the sale exercise starts. Staff who would not be required by a purchaser might be employed elsewhere in a group or directly by the proprietor, as appropriate.

### ***Accounting policies review***

With a sale exercise in mind, a review should be undertaken of the following accounting policies, with a view to maximizing stated earnings:

- Recognition of profit, particularly for contract-related businesses.
- Depreciation policies, both for tangible and intangible assets.
- Provisions – excessive provisions against stock or even debtors is one of the most commonly used techniques to reduce tax. In the lead-up to a sale, excess provisions should be released to boost both profits and asset values, preferably over more than one accounting period.
- Valuations of properties and investments.
- Research and development – this may play a large part in the purchaser's interest in a private company. Small companies are frequently bought for their innovative skills and product development capabilities. Where all research and development has been written off in the past, this should be identified and highlighted.
- Accounting treatment of any rent-free lease agreements.

### ***Accounting systems***

It is essential for the vendor to start preparing monthly management accounts if it does not already do so. During a sale process, it is vital to have up-to-date information on the current trading performance of the company and purchasers will be looking for the vendor to warrant a recent set of management accounts.

It is equally important for the company to produce budgets. At a minimum, a purchaser will be looking for profit projections for both the current and the following

financial year. If the company has not had a history of producing budgets (and hopefully beating them), any projections produced specifically for the sale exercise may lack credibility.

### ***Review of business plan and strategy***

In the lead-up to a sale, every strategic decision which a company makes should take account of the likely impact of that decision on the attractiveness of the business to a potential purchaser. An obvious example might be a decision to extend the lease in the company's head office in the lead-up to a sale. It may be that a purchaser would wish to integrate the vendor's business (with its own) in which case a long-term lease might be a poison pill.

### ***Legal review***

A legal audit should be carried out in conjunction with legal advisers and should, at a minimum, ensure that:

- All leases and title deeds are located and reviewed.
- Trading contracts are examined to ensure that no change of control restrictions or prohibitions apply. Such provisions are potential 'poison pills' for a purchaser and to the extent possible should be resisted.
- Intellectual property rights are registered.
- Shareholder agreements and articles are examined to review provisions relating to a sale.
- Companies House filings are up to date, as are board minutes and other statutory documents.
- Any outstanding litigation is cleared up. Even if it is covered by insurance, major litigation can be a deterrent to a purchaser.
- To the extent possible, the ownership structure of the company is simplified. This may involve buying in minority or joint venture interests. Purchasers value simplicity and complex ownership structures can diminish the attractiveness of a business.

## **Other matters**

### ***Environmental audit***

Potential environmental liabilities will be a major area of concern for any purchaser. Depending on the nature of their business, it may therefore be appropriate for the vendor to conduct an environmental audit prior to the sale to enable them to identify and remedy any potential problems at an early stage. If a purchaser finds major environmental issues during the course of the due diligence, this can have major timing implications, if not endanger the deal.

## ***Public relations***

Potential purchasers are much more amenable to a company they have heard of than one whose name they do not recognize. It is often advisable therefore to raise the company's profile prior to a sale, by conducting a PR campaign directed not at the company's customer base but at potential buyers of the business. Examples of profile PR of this nature include obtaining editorial coverage on the company in trade or financial publications.

## ***Vendor due diligence***

Vendor due diligence involves the proprietor instructing accountants to prepare a due diligence report on the business in advance of a sale exercise being undertaken. The report is then given to potential purchasers who have expressed serious interest in the company for use in finalizing their offers for the business.

The main advantage of vendor due diligence is to flush out financial, tax and other issues relating to the business at the outset of the sale process. As a result, the chances of the deal collapsing once heads of agreement have been reached, or an agreed bidder chosen, are significantly reduced. If the report is prepared properly, it is unlikely that any material issues will arise from the purchaser's due diligence which had not already been identified in the vendor due diligence report.

## **Conclusion**

The more prepared the business is prior to the commencement of the sale process, the greater will be the proceeds of sale. However, it is important not to groom a business for sale in an over-zealous fashion or attempt to boost profits in artificial ways which will be exposed during due diligence. This will backfire on the vendor and may destroy a relationship of trust established between the vendor and the purchaser. It is also necessary to commence the grooming process long before the sale process gets under way, principally because the impact of the steps taken to enhance profits will take some time to flow through to the company's accounts.

Peter graduated with degrees in Law and Commerce from Melbourne University in 1984. He joined the corporate finance department of Minter Ellison, a leading Australian law firm, where he qualified as a lawyer. In 1989 Peter joined the corporate finance group of Clifford Chance in London. He worked on a wide variety of transactions, including management buy-outs, stock market flotations, and acquisitions and disposals. After completing an MBA in Finance, Peter joined Cavendish in 1994 and was appointed a director in 1997. Peter is a frequent lecturer and author on the subject of mergers and acquisitions. He has published a book entitled *Maximizing Value on the Sale of a Business*.



Cavendish Corporate Finance LLP is a London-based corporate finance boutique and a leading independent specialist adviser to vendors of businesses. Founded in 1988, Cavendish has advised on some 400 company sales with an aggregate value in excess of £3 billion. Cavendish's clients include private companies, financial institutions and fully listed public companies, with typical transactions falling broadly within the £10 million to £150 million 'mid-market' value range. Cavendish is unique in that it has only ever acted for vendors of businesses and as a result has built up an unrivalled specialist expertise in managing the company sale process. Cavendish is a member of M&A International Inc, the world's leading alliance of specialist mergers and acquisitions advisers and investment banking firms. Cavendish's expertise and success in selling businesses is acknowledged in their being named Corporate Finance Boutique of the Year at no fewer than four leading industry awards ceremonies in 2008 and 2007.

# Tax and legals

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*Huw Morgan-Thomas at Sunbelt runs through the tax and legal issues in completing the sale of a business*

## **Business asset sale or share sale?**

If the business to be sold is incorporated, there are two possible ways of bringing about the sale: a sale of the business assets themselves (for the buyer to continue the business); or a sale of shares in the company which owns the business assets.

The buyer and seller can choose which method to adopt. If the business is not incorporated, the parties do not have a choice, and the transaction can only involve the business assets. The method adopted determines the tax and legal consequences of the transaction.

## **Tax issues**

An accountant or tax adviser can give definitive advice in any particular case, and it is worthwhile for a business owner to seek advice before putting the business on the market. Most important potential tax liabilities to be considered are the following.

### ***Value added tax (VAT)***

VAT is not charged on the sale of shares of a company. Where the sale is of business assets, VAT is in principle chargeable to the seller. There is, however, an exemption where the business is sold as a going concern to a VAT-registered person.

## ***Stamp duty***

Where the contract is for the sale of shares in a company, stamp duty is chargeable at a rate of 0.5 per cent. Stamp duty is also chargeable on contracts to transfer certain other assets (at varying rates). This is a matter of concern mainly for the buyer.

## ***Capital gains tax (CGT)***

Where a company is involved in the sale as, in technical terms, the owner of the business assets involved, there are two possible scenarios:

- In a share sale, the previous owner of the company bears a charge to CGT (which can be affected by entrepreneurs' relief for disposals on or after 6 April 2008).
- On a sale of business assets by a company, with the shares retained by the existing owner, the company will be charged on any capital gains arising. This will be at the company's rate of corporation tax. The owner of the shares in the company will then choose between having the proceeds of sale retained in the company, and taking the proceeds out of the company (with a possible second tax charge to income tax – see below).

If the business assets are directly owned by an individual seller, that seller will be personally liable to CGT. Following the simplification of CGT for disposals on or after 6 April 2008, the rate of CGT charged is usually 18 per cent of the chargeable gain. Entrepreneurs' relief, however, means that the first £1 million of gains can be charged at a rate of 10 per cent.

## ***Income tax***

Where a company has sold the business assets in question, and the owner of the shares wishes to draw on the proceeds by way of a dividend, there is a charge to income tax.

A charge to income tax will also apply for any consultancy or salary paid to the previous owner as a part of the sales contract.

## **Stages in the legal process relating to a business sale**

### ***Negotiations and conclusion of the heads of terms***

This is often the most straightforward part. After negotiation, the parties come to an agreement on the headline aspects of the deal: for example, a definition of the assets to be sold, the consideration, and a timetable for the transaction. The deal is often encapsulated in the heads of terms. This is a memorandum of an agreement in principle, which is usually stated not to be legally binding. Also often included are a confidentiality clause (to protect the seller) and a clause that for a given period the seller will not negotiate with anyone else interested in the business (for the benefit of the buyer). When included in the heads of terms, these clauses are usually legally binding.

## ***Due diligence and the preparation of the sale/purchase contract***

Due diligence involves the buyer conducting a wide-ranging investigation of the target business – especially financial, legal and commercial issues. All other things being equal, investigation for a buyer of a company will be even more intensive, as the buyer will in principle inherit liabilities of the company as well as the underlying business.

Due diligence and contract preparation often proceed in parallel. The purchaser's solicitor will usually ask for the seller and advisers to provide information on a range of issues. Matters brought up in due diligence will affect the provisions of the contract. *Warranties* in the contract provide particular assertions by the seller about the state of the business; a *disclosure letter* from the seller gives information on particular points which modify the assertions given; and *indemnities* in the contract provide assurance to the buyer that the seller will make good losses to the buyer on matters asserted by the seller which turn out not to be true.

It is at this stage that each of the buyer and seller need to be sure that they are keeping on top of the issues and ensuring that the legal process is not becoming stuck in correspondence between solicitors. Unless a commercial view is taken of minor negotiating points, the transaction process can be delayed or even abandoned.

Depending on the size and complexity of a deal, legal documentation can be voluminous and legal negotiations tortuous. The process, however, is necessary to provide certainty about the terms of the deal, and to ensure that effective ownership of the business is entirely passed over to the purchaser.

## ***Completion***

At completion, all specific things are done necessary to transfer title, to tie up legal loose ends and to transfer the consideration for the deal. Completion should take place ideally within a few weeks of the parties' signature of the sale/purchase contract. If there is a substantial delay, the chances are greater that the carefully negotiated contractual provisions are made irrelevant by changing circumstances in the business.

## ***Post completion***

A number of issues become relevant after completion (upon which advice needs to be taken before the contractual stage). These mainly affect the buyer and, typically, can include:

- on a sale of company shares, the payment of stamp duty on the share transfer forms and changes in the company books;
- on a sale of business assets, the buyer needs to deal with protection of employment regulations for the existing staff (TUPE). If the sale is of company shares, existing staff will anyway continue to be employed by the company after the transaction.

Huw Morgan-Thomas is the senior broker at Sunbelt Business Brokers East London office, which is part of the International Sunbelt Network. Their services include business sales and acquisitions and exit planning services to the SME market. Our business brokerage professionals are dedicated to providing our buyers and sellers with superior service throughout the entire buying or selling process. Sunbelt's experienced methods make the transition smooth and uncomplicated.

Tel: 0845 094 3041

E-mail: [hmt@sunbeltnetwork.com](mailto:hmt@sunbeltnetwork.com)

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