


Pan  Business/Management

BUILDING A BUSINESS

20 KEY STEPS TO STARTING AND
SUSTAINING A SUCCESSFUL
BUSINESS



Ron Sewell

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Building a Business

20 Key Steps to Business Success

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Building a Business

20 Key Steps to Business Success

Ron Sewell is a management consultant who started a business himself with a £700 loan. He is a Fellow of the Chartered Association of Certified Accountants, Fellow of the Institute of Administrative Management, Fellow of the Institute of the Motor Industry, Member of the Institute of Management Consultants, Associate of the Chartered Institute of Secretaries and Associate of the Institute of Taxation.

Ron Sewell's other books include *Account for your Profit*, *Stock Management*, *Profitable Stock Management*, *Fair Profit from Merchandising*, *Fair Profit from Labour*, *Control your Profits*, *Book-keeping for Profits*, *Profitable Accountancy*, *How to Improve Profits* and *Market Research and Analysis*.



BOSS: "How on earth did you manage to fall down so badly . . ."

SUBORDINATE: "Trouble is, Sir I have seven idiots working for me in my department!"

BOSS: "Aren't you lucky, I have got eight working for me!"

The objective of all dedicated businessmen should be to thoroughly analyse all situations, anticipate all problems prior to their occurrence, have answers for these problems and move swiftly to solve these problems when called upon.

HOWEVER . . .

When you are up to your ass in alligators it is difficult to remind yourself your initial objective was to drain the swamp.



Foreword

As a chemist starting my own business some thirteen years ago I became, of necessity, an avid reader of literature concerning the running of a business. I found Ron Sewell's publications of enormous value in the fields of management techniques and management accounting.

This latest book presents a basic strategy which I believe has to be implemented before any business can be successful. The organization and everyone employed in it has to have an objective which is defined, and measurable; only then does motivation become possible.

All small businesses are under pressure from all sides, and only well-managed businesses will survive. The qualities of inspiration, leadership, salesmanship and hard work have always been required but, today, they must be complemented with a good understanding of financial controls and objectives.

The wealth of sound principles and performance standards contained in *Building a Business* make it essential reading for anyone running any business, and I record my thanks to Ron for adding to his already great contribution towards greater professionalism and profitability; particularly in the motor trade.

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The Concours Motor Company Limited

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Part One

Sliding into bed . . . backwards

Many businesses start in a moment of euphoria, without thinking through all the implications. Having started, they 'grow like Topsy'.

The first requirement of business is to know what you're doing, what you're aiming for, and really want to win.

Chapter One

Failure's Easy: Success Difficult

'I really want to win'

Jahangir Khan's first name means 'conqueror of the world', though he is neither tall nor particularly muscular, but, appearances notwithstanding, Jahangir is indeed conqueror of the world – the part of it, at least, that plays squash. His domination of the sport of squash is more complete than that of any other champion.

'You have to want to do something in order to do it and I really want to win,' Ross Benson quotes him as saying, as if that explains everything. Indeed, Ross Benson goes on to point out that young Jahangir Khan, who is only in his twenties, could be squash's first millionaire.

He was born with a hernia, and as a child was warned, on penalty of his life, never to take part in any strenuous sporting activities. Now he starts his six-hour training day with a ten-mile run or two hours of sprint work. This tunnel vision has made Jahangir Khan the greatest squash player in the world and one of the greatest athletes of his age. It has also cost him his youth, but Ross Benson's interview with him concludes with the quotation:

'I am happy, I am world champion, and I fulfilled the solemn vow I made on the death of my elder brother.'

Sliding into bed . . . backwards

Unfortunately, many businessmen have not set themselves such a clear-cut objective; some have set themselves the wrong objective; while others don't even recognize the need to have an objective.

Common Mistakes

Let us summarize some of the more frequent mistakes.

- The skilled employee decides to become self-employed because he wants to work for himself. But he fails to think through what

will happen if he is successful, so, without really intending to, he 'slides into bed backwards' by becoming an employer.

- A business may be started by a man or woman who is highly technically qualified, and builds and designs some new item of equipment, or a service, which he or she feels is the best available. The product is right, but the marketing objectives have not been thought through.
- We have all met the salesman who can 'Sell ice-cream to Eskimos'. When he starts a business, he quickly achieves high levels of sales without any regard to the financial implications of such a high volume of turnover, or of the other resources needed to sustain a business.
- A business may be started by a man or a woman with a 'mission'. He or she has laudable desires to provide employment in an area of high unemployment; to revive a lost craft; or to provide some much needed social service. But, again the business will fail unless realistic, commercial objectives are defined.

Four businesses out of five fail to survive their first five years, so let us re-emphasize the importance of the correct, integrated approach to business we have been discussing by looking at a few sad stories.

Charlie the Craftsman

Many businesses are started by the skilled craftsman or technician. This person left school, became an apprentice, gained City and Guilds, served an apprenticeship, and with further experience became a very fast, skilled, senior person in a workshop.

Those with ambition then start to worry about the long-term future. To become a junior supervisor can involve more responsibility, possibly for a lower net salary. In these circumstances, the idea of starting your own business can seem extremely attractive.

Let me tell you the story of one such craftsman, Charlie. As it happens, he was a highly skilled car mechanic, and had been earning – on an incentive scheme – £3 an hour for a national garage group.

Charlie managed to rent a small workshop, and soon began to collect an increasing number of customers. He was very good. He could diagnose accurately what was wrong with the car. He could then carry out, quickly, a cost-effective repair. His customers enjoyed the fact that they were talking directly to the mechanic working on their very expensive, prized possessions. He leaned

over backwards to be helpful to customers needing a quick job done.

In short, he very quickly built up an excellent reputation for his craftsmanship, integrity, helpfulness, and for the pleasant manner in which he dealt with customers.

Then, his problems started . . .

More staff needed

By now, Charlie was overwhelmed with work, and thought the answer was to take on more staff. Having had no experience of recruiting, he ducked the issue by asking a couple of his mates to join him. This was his first mistake. His mates had enjoyed being mates, but they did not enjoy being subordinates. They wanted to be 'bosses', too. After an awkward period of strife and tension, they left. Charlie was forced, rather reluctantly, to advertise, interview, and try to recruit staff. Lacking experience, he made mistakes. The workmanship of his recruits was well below Charlie's own standards. For the first time, Charlie had customers complaining. The result was that Charlie ended up working even harder for longer hours, putting right the mistakes made by his employees!

(Indeed, there were occasions when the employees were under-employed, while Charlie was desperately overworked!)

'Non-productive' paperwork ignored!

Charlie's greatest strength – his craftsmanship – was also his greatest weakness. (As we will see later, failing to recognize that a strong point can also be a weak point is something against which we must all guard.)

As a craftsman, Charlie was scornful of non-productive paperwork. His mental attitude was that the cost clerks at his previous garage had been irritating, unnecessary parasites, depressing his own wages. In fact, his greatest relief at starting his own business was that he no longer had to complete those fiddly, three-part claim slips used to operate the incentive scheme.

When he first started on his own, he almost deliberately failed to record how he spent his time, or the parts and materials he used on the jobs. Moreover, he was so busy working hard that he could only do his invoicing on a Sunday afternoon.

Finally, to complete this catalogue of errors, he had no idea of the

importance of credit control. Because he could not get the invoices ready promptly, he actively encouraged people not to pay him until he got round to preparing the invoice. Needless to say, all the bad payers in the district, who had been refused credit by all the other garages, descended upon him!



Because the bills were delayed and based on inadequate records, he could not contest any queries raised by customers; and was often forced into giving credits – on invoices which were already far too low to start with!



More premises needed . . .

Despite all these problems, Charlie's business was expanding. He needed more space. He had long since used up all his savings, and needed to borrow money.

Succumbing to the TV adverts which indicate that banks are full of friendly people, dying to help small businesses, he made an appointment to see a local bank manager. Unfortunately, this gentleman was far from happy, and not particularly friendly. Frankly, he was worried – justifiably – at the problems facing Charlie and his business.

He requested that Charlie and his wife should sign personal guarantees for the loan they wanted. Effectively, this meant that all the possessions of Charlie and his wife, including their home, were pledged against the loan. He insisted also on a 'floating charge' on

the business. This meant that all the assets of the business were also pledged against this loan.

(These guarantees and charges later created their own problems, but that is another story.)

Are you charging enough?

However, the bank manager did try to be helpful by giving Charlie constructive advice.

He questioned Charlie about the basis on which he invoiced his customers. Remember, Charlie had been earning £3 an hour as a senior mechanic. He had not really devoted very much thought to the question, but had decided that if he charged his customers £7.50 an hour, he would be making a handsome profit!

The bank manager pointed out that the charge to the customer had to include a host of additional costs, including:

- the non-productive time of the mechanics
- sickness and holiday pay
- rent and rates
- heat, light and power
- post and telephone
- bank interest charges
- running a recovery vehicle
- small tools and equipment
- plus a host of incidental and sundry expenses.

Moreover, the income ought to provide a fair salary for Charlie himself, and – most important – should generate sufficient profit to enable Charlie to finance the growth of his business.

Indeed, the bank manager was particularly helpful in ringing round some of his contacts in the motor trade to discover that the average retail labour rate being charged in the area was between £10.00 and £12.00.

Faced with this information, Charlie, very reluctantly, increased his own retail labour rate to £8.00 an hour on the basis that he could not charge as much as some of the larger garages. In fact, despite his difficulties, he was still providing a very fast, accurate, reliable, convenient, highly personal service, which could have justified charging more than his competitors!