



AXA's Tipping Points Guide

For Small Businesses



Be Life Confident



Contents

- Introduction 3
- Stage one: planning for success 4
- How to write a business plan 8
- Stage two: building firm foundations 9
- How to: hire the right people to build business success 13
- Stage three: growing profitably 14
- How to grow profitably 20
- Stage four: maturity – fighting apathy 21
- How to reinvigorate your business 25
- Stage five: bridging the gap 26
- Conclusion 31

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Introduction

In business, as in life, there are certain key moments – or **Tipping Points** – that all companies experience as part of their life cycle from start-up to maturity. Whether it's coming up with your business idea, raising finance, recruiting your team or moving premises, making the right decision can make or break your business.

This guide aims to help you steer your business through the cash flow, people and compliance issues you will face by helping you recognise these Tipping Points and providing expert advice on the practical action you can take.

Whether your business is a new start up or a mature business, Tipping Points can act as barriers or accelerators to growth. Matching your business to one of the following five stages in the business lifecycle will help you identify the next Tipping Point you will face and choose the right path for future success:

- 1. Start up:** Planning for success
- 2. Growth:** Building firm foundations
- 3. Expansion:** Growing profitably
- 4. Maturity:** Fighting apathy
- 5. Exit:** Bridging the gap

We hope this guide helps you to minimise the risks your business faces and run your business effectively whilst helping you to make the most of opportunities as they arise.

Paul McNamara
Group Strategy Director
AXA

Stage one: planning for success

“How business owners negotiate key moments during the start up phase will make the difference between survival and closure. Managing the start-up stage well will also lay strong foundations for future business success. Though it is impossible to predict problems that may occur, careful and thorough business planning and pre-empting pitfalls with contingency strategies will dramatically improve a business’s chances of surviving the difficulties that inevitably occur. Taking the time to prepare whilst realistically plotting business growth will stand a business in very good stead.”

Paul Eccleson, Head of Risk Management, AXA

Tipping Points

The right idea:

Checking that your small business idea is sound and that there is a market for your type of product or service will determine whether people are likely to buy it. According to the Association of Business Recovery Professionals, loss of market accounts for 34% of business failures. Without a niche opportunity, companies are forced to drop their prices to penetrate markets which can slow business growth.

Solutions

Conduct market research:

Collecting data in this way can increase your awareness of how the consumers or businesses you hope to sell to will react to your products or services. There are a number of ways of conducting this research and several methods of gathering data; questionnaires and personal interviews are the most common. These needn't be conducted on a large scale but testing the market will ensure that your business is built on a strong foundation.

Tipping Points

Raising finance:

Failure to properly plan cash flow is one of the leading causes of small business failures and particularly crucial for start-ups who won't immediately start making money. Businesses must identify the kind of funding most appropriate for them and the particular stage of their growth. According to the Federation of Small Businesses, one in five businesses reported obstacles in raising finance to start up their business. Banks are the most common form of external finance for SMEs but your business may be better suited to other sources of funding.

Solutions

Learn about raising capital:

Knowledge and planning will help to manage your finances effectively. Identify the best type for your business - an internet or technology-based company for example might need more money and an investor who is prepared to take a higher risk than other companies. For alternative sources of funding try Business Link which provides access to over 3,000 publicly funded grants and subsidies (www.businesslink.org). Be realistic about time frames and clear about the risks you are prepared to take in order to get what you need. Are you prepared to use your own money, invest relatives' and friends' capital or seek alternative funding from a larger pool of investors?



Tipping Points

Business plan:

A good quality business plan is crucial for winning over investors or securing loans. Often plans fail to address everything these parties consider when deciding on a project – it is particularly important to define the type of capital you need, explain clearly the investor's exit strategy and how you expect to provide them with a return on their investment. Without setting out a plan and targets, it's also impossible to monitor your progress and get the business back on track quickly if anything goes wrong.

Experience and partnerships:

Competitive pressures are forcing companies to come up with imaginative ways to drive sales, connect with customers and attract quality employees. Without developing partnerships to do so, companies will find it harder to enhance their competitiveness or keep pace with market changes and technological innovation. Ideally partnerships will give you a shortcut to new markets or enhance your product and service offering without distracting you from your core business.

Solutions

Build a robust plan:

A good plan will define strategy and set out realistic targets for success but remain flexible enough to make changes along the way. Develop a plan which outlines the structure of your business, the product or service, the customer, the growth potential and the financials. It should also give you an idea of what you need to achieve and help you avoid failure by identifying the pitfalls along the way. A business plan should be treated as a crucial working document to help owners run their business.

Form strategic alliances:

These can work particularly well for SMEs that can combine resources to gain additional business whilst concentrating on key skills. Technology has made it even easier to build supply chains and alliances, enabling companies to enter new markets, share financial risks and get products and services to market faster. Alliances can also mean exposure to new customers, opportunities to widen skill sets and in some cases enable businesses to better understand the capacity and capabilities of competitors.

Tipping Points

Attracting and keeping first customers:

Customers are key to all businesses regardless of size or industry. Businesses which fail to attract new customers or develop long term relationships with existing customers do so because they do not know how to satisfy customers' needs. This leaves them unable to react to customers effectively, leading to declining sales and exposure to competitors.

Solutions

Focus on customer retention:

Ensure customer care is a key part of your business strategy. To do this effectively, it is necessary to organise the entire business to focus on the needs of customers. Learn as much about your different customer segments as you can. Developing a brand around your company, products or services will help customers identify with the business and help develop loyalty.

"There is a huge appeal in starting your own business, whether it's to be independent and one's own boss or to better oneself and earn more money. However, surprisingly few people seek advice before starting their business - our own research has found that over a third of business owners had not sought advice before starting up. Given that around 40% of small businesses cease trading within three years of starting up, taking the time to source expert advice on recognising pitfalls and opportunities by planning a strategy and setting out realistic targets could dramatically improve chances of business survival and ultimately business success. Setting up a business is a difficult but extremely rewarding path to tread but it's crucial that business owners keep their eye on the big picture and know when to respond to real dangers. Recognising those risks which need most careful management is a central element in successful companies' business planning."

Markus Clavin, Marketing Director, Small Business Service

How to write a business plan:

A business plan must be organised into logical and clearly defined sections. It should also provide a roadmap showing how your company plans to achieve its goals, include a Strengths-Weaknesses-Opportunities-Threats analysis and discuss your company's plans for the near and long-term future.

Elements to include are:

- **An executive summary** – an overview of the business. Many lenders and investors make judgments based on this alone
- **Short description of the business opportunity** – what your product or service is, why and to whom you plan to sell it
- **Marketing and sales strategy** – why will people want to buy your product / how do you plan to sell to them
- **Your operations** – the premises, production facilities, management information systems and IT
- **Financial forecasts** – start-up costs, break-even analysis, balance sheet, income statement and cash flow forecast for a period of 3 to 5 years.

Keep your plan as short as possible while ensuring that you cover all the important topics in sufficient detail to substantiate your proposal.



Stage two: building firm foundations

“An all embracing approach can limit growth so business leaders must let go of certain roles they’ve previously been performing. They must employ the right people to take responsibility for certain tasks whilst they concentrate on running operations. The business must also develop a personality beyond that of the owner – this will enable new recruits to feel that it is just as much their business and their culture. At this stage it is of utmost importance that owners conquer any fears they have of losing control, investing in training for themselves and employees is the most effective means of managing this transition.”

Richard Trotter, Head of Employee Relations, AXA

Tipping Points

Employment / first hire:

For many businesses, people are the most important asset, yet according to a Learning and Skills Development Agency (LSDA) survey, employers need more training and help when making the critical decision to hire new staff. If a new recruit doesn't fill the gaps in business owners' skill sets or free up their time to put their own particular skills to maximum use, they will not propel the business forward.

Solutions

Provide appropriate training for employees:

Important factors to consider before hiring include how it will affect the cost effectiveness of your business, how you should go about finding the right people for the job, how to organise and implement any training that might be necessary, and finally what your legal responsibilities are as an employer. There are a number of training courses or business resources available to enable business leaders to better understand these issues.

Tipping Points

Compliance:

A small business owner can be closer to his/her employees than a larger one but a less rigorous and less disciplined approach can mean some issues aren't dealt with effectively. With the UK at the forefront of health and safety at work legislation and changes in employment law, employees are much more aware of their rights. This is of increasing concern to employers who face costly retributions if they don't take their legal and moral duty to protect their employees seriously.

Increasing operational costs:

The decision to extend the scope of your business must be a result of thoughtful consideration of financial and logistical implications. Adding a second and third outlet and working harder may result in more volume, but with the additional overhead, businesses may not make any more money. Many entrepreneurs see their businesses crumble as a result of uncontrolled growth brought on by not carefully weighing up the financial benefits of expansion and whether the company's structure can support the additional investment.

Solutions

Keep up-to-date on legislation:

There are a number of Government sources available that outline all the legal consequences of hiring employees. Some of the most important to consider are the terms and conditions of employment, and health and safety regulations. Business Link (www.businesslink.gov.uk) is the Government's single access route to information on all aspects of legislation including employment.

Evaluate expansion plans:

Develop a business case to outline the financial benefits of expansion. Ensure cash flow will support further investment, that the cost of new facilities or equipment is covered and be clear on the most appropriate source for this extra cash flow. Expand only when you have already proven that demand exists for your products or services. Where additional capital is concerned, ensure the new venture will be profitable enough to allow you to earn enough money to repay the loans.

Tipping Points

IT:

According to a recent survey by technology and telecommunications advisory firm IDC, one third of SMEs have a low interest in IT and are unlikely to invest in it in the short term. This may explain why a great many businesses make poor decisions when introducing computers to their business, leading to problems with costs, time and people. Common mistakes include not choosing the right system for the business, failing to spot hidden costs and not planning realistically for the time it takes to choose and set up a system.

Sales and marketing:

After the initial surge at the start up stage, sales may level out. If owners do not address this, the business will hit a plateau. A growing business will require larger premises, more employees and better resources to cope and if there is no drive to support sales then it will fall into debt. Marketing and promotional strategies rest on market research without which businesses will find themselves unable to fully understand customers' needs or their business rivals' strengths. Failing to market and promote your business will also present competitors with opportunities to target and promote their products to your customers.

Solutions

Develop an IT action plan:

Incorporate your business's future needs within an overall IT strategy, one that is flexible enough to match your growth without needing to be completely replaced. Risk assessment can identify potential problems and how to address them. Carefully research costs and find out as much as you can about suppliers. Thoroughly plan the implementation to minimise disruption and pre-empt future problems. An IT consultant is a cost effective means of understanding and planning for the impact of installing a computer system.

Invest in sales and marketing:

Knowing your market is key to success so update earlier market research to ensure it's still relevant. Identify your position within the market and get an external view on your strengths as your view may be different to those of your customers and competitors. Be realistic about how much to spend – break your marketing into bite-sized chunks and stay focused on achieving quick wins. Finally, monitor the effectiveness of your strategy, always find out how customers heard about your business and, if it isn't working, change it.

Building firm foundations,

“The first eighteen months in business is the most critical time in terms of survival. After this initial period, businesses tend to be viable entities, albeit with a different set of problems to deal with. It is still the case that only 30% of new business start-ups actually go on to employ anyone. This occurs for a variety of reasons. At the top of the list is finding and attracting employees with the requisite skills. Small businesses tend to offer lower wages and fewer fringe benefits than larger firms. Yet this pecuniary deficit can be compensated for by a better working environment in which social interaction is much greater and employees have a higher degree of personal autonomy. The costs in terms of managerial time can also be prohibitive both in the recruitment phase and, once hired, complying with labour market legislation and payroll requirements.

Sales and marketing are also critical factors in this stage of a business life-cycle. Many small businesses are set up by people skilled in their chosen field and capable of making high quality goods or providing a good service but they lack knowledge of how to market and sell their goods and services. This problem is exacerbated as once they are up and running competitors begin to take notice and put more effort into fighting new competition.

IT can also become a problem as businesses go beyond the mere survival stage and look to consolidate their position in the marketplace. This is a period when businesses need to begin to develop more formalised management systems and have a greater requirement for IT, which can aid management in key areas such as payroll, sales and marketing, invoicing, ordering and general client management. IT can also be a key tool for cost-management in a period when most businesses will be extending credit to customers and generally facing liquidity constraints as payments for raw materials are rising at the same time as customer credit and payroll expenses.”

Mark Cowling, Senior Economist & Small Firms specialist , The Work Foundation

How to hire the right people to build business success

1. Identify what skills the company needs to grow - this will enable you to identify its current strengths and where the gaps are. Referring to your business plan to confirm the nature of your product and its assessment of the market characteristics will help here.
2. There will be areas in which you have no relevant skills or experience. Be honest with yourself. Are there areas that you skirted over in your business plan? These are likely to be the weakest. Recognise that you can't do everything and that these areas are where you need help – does the marketing plan need more work? Are the financials slipping?
3. Finding the right employees is a common problem. But once you have filled one vacancy, you will have a list of candidates to consider for other vacancies. Recruit to meet your core business needs and keep in mind that bringing in help from specialist consultants and freelancers can be more cost effective than making a hire.
4. A good place to start is by drawing up a job profile to be used in an advertisement. Local newspapers, job centres, online recruitment and recruitment agencies are all popular and effective methods of finding candidates.
5. Draw up a shortlist from applications. Giving people a test is a useful way of narrowing this list down – five or six should be enough. Ask the same questions of all candidates. Cover off things like work history and skills, experience and the motivation for applying for this position, career plans and ambitions. Remember that attitude and cultural fit can be as important as qualifications and experience.



Stage three: growing profitably

“The biggest mistake a growing business can make is chasing turnover over profit. Owners must resist the strong temptation to run before they can walk. If expansion isn’t controlled and carefully measured all the hard work that has previously been achieved can come unstuck. In order to expand successfully, they must also adopt a great deal of rigor and discipline in their processes and master the skill of delegating effectively whilst ensuring they still stay close to business operations.”

Chris Horlick, Sales and Marketing Director, AXA

Tipping Points

Not expanding profit:

Business owners will often fail to ensure their margins are adequate and will sometimes chase business for the sake of turnover alone. A recent small business survey revealed that 55% of small business owners believe that increasing **sales** would be the most effective way of growing their business. In contrast, just 7% of businesses saw increasing **profit** as the most effective means of achieving growth. This becomes problematic if the business begins to shoulder heavier financial burdens than it can bear as it takes on more employees and increases operational costs to drive output.

Solutions

Expand with careful focus on profit:

Concentrate on generating positive cash flow and focus on margins as much as turnover. Keep a close eye on the balance between your equity capital (including retained profits) and your borrowed funds. If the business is properly capitalised with adequate equity, or is profitable enough to be able to finance itself largely from retained profits, there’ll be no problem with borrowings. However, it’s possible to run into cash flow problems even when making good profits, if working capital isn’t carefully monitored. In particular, keep strict control of suppliers, holding stock, and getting cash in from debtors to keep cash flow and profits healthy.

Tipping Points

Overestimating demand:

For many SMEs, the demand for the goods and services which they offer may have peaks and troughs and there may well be a ceiling to demand within their particular market. Falling production costs are squeezing profit margins and raising the competitive stakes amongst UK business fighting to increase their share of limited markets. Over-reliance on existing product and service ranges, lack of market knowledge and lack of research and development will leave companies unable to innovate – essential in the production of the value-added, profitable products and services that businesses must develop if they are to expand.

Solutions

Re-evaluate customers' needs and re-visit products and services:

Sales forecasting is a crucial process in planning investments, deciding when to expand or withdraw products and services or launch new ones. It will enable business leaders to make critical decisions about employment levels required, the promotional mix and investing in production/service delivery capacity – all key drivers of expansion. By focusing efforts on innovation, owners will be able to negotiate the changing market place. This needn't just mean creating a wholly new product but also includes improving existing processes (driving down costs); improving existing products and services; and reaching out to new markets and customer groups.



Tipping Points

Poor management:

Expansion is impossible unless owners develop their employees and delegate the rigorous and disciplined processes that belong to established businesses (in particular relating to billing and financial management). Delegating fails where owners think of it as little more than just handing out assignments. Unless they delegate effectively to the right people, business owners won't have the capacity to see how the critical pieces of the business fit together or be able to make sound and effective business decisions.

Solutions

Delegate ruthlessly and concentrate on running the business:

To expand, owners must be disciplined about how best to spend their time, delegate and concentrate expertise on managing the business. Owners should surround themselves with competent individuals who have complementary skill sets by developing employees or recruiting them. Choose carefully who to delegate to, identify the right people for certain jobs and ensure that they have the necessary information to get it done. Always manage or oversee the entire process on a consistent basis and review progress frequently. Be sure to understand the processes that employees are carrying out so as not to lose control.



Tipping Points

Lack of compliance:

Problems with compliance can bring new challenges at this stage. As the business expands it must comply with a wider range of legislation (necessary to protect individuals, consumers and businesses) including increased health and safety, employment and VAT responsibilities as well as the environmental and planning issues that may accompany larger premises. With greater demands on their time, owners often struggle to deal with the new legislation that comes with the increase in size or range of activities and struggle to best minimise its impact.

Solutions

Correctly identify the biggest risk areas and put contingencies in place:

At this key life stage, the need for appropriate training and keeping up to date with regulatory requirements is vital. Regulation tipping points include turnover and number of employees – make it your business to know what these thresholds are – being prepared will save you a lot of time and money. Consider adding a compliance officer role to one of your manager's responsibilities and ensure they are trained and kept up to date. Government support for training takes many forms including the direct provision of seminars and workshops by government departments (see www.businesslink.gov.uk for more details) or access to professional training services. In addition, local authorities, trade associations and professional bodies provide training and other support services to businesses. Professional consultants can provide risk analyses and help draft contingency plans; visit www.axa4business.co.uk for a number of resources including a free guide to business continuity planning.

Tipping Points

Unclear mission and goals:

Business plans are an important test of the clarity of the owner's thinking as well as the clarity of the business. If the people involved in the business don't have a clear understanding of its objectives, expansion will be impossible to achieve. Unless owners review and update their business plan regularly, they will be unable to anticipate or plan for the next stage of business growth and vulnerable to nasty surprises. Without reinventing or experimenting to find a newer, more successful business model, owners will not be able to develop the flexible and innovative company structure required to adapt to new and changing internal and external conditions.

Solutions

Review and update the business plan:

Treat your plan as a work in progress and a flexible benchmark against which you regularly review the performance of the business. Set out what the key ingredients of your future success will be and how you will strengthen your position in the market. Remember to base your goals on profit rather than pure turnover and continually review and re-establish your overall business aims and where you realistically intend to be in three years. One way of doing this might be to identify another half a dozen objectives with significant impact on the future of your business and define clear targets for these (for example: human resources, income, customers, products). Next, work out how you will reach these targets by considering each aspect of your business in turn and creating a step-by-step action plan.

Successful business expansion,

“Start-up and growth are all about ‘riding the wave’. But now you have a foothold, it’s time to give serious thought to business expansion. All too often, this is the time that companies trip up on the growth curve. It is important to be realistic and careful in planning your expansion, otherwise you can over-stretch your resources.

This is an opportunity to take a strategic evaluation of your business. A sensible step would be to make sure that your revenues are not overly reliant on any one particular product or service, market or customer. This is the time to start diversifying and looking to spread risk. It is also the opportunity to look at the internal capabilities of the business. It might also be an appropriate juncture to bring in additional management or functional expertise to help steer you through this next phase of expansion.

And finally, make sure you monitor performance. This is particularly important when organisations are going through significant change or growth periods. Ensure that profitability increases in line with turnover, and keep a close eye on the all-important cash flow.”

Matthew Fell, Head of Enterprise Group, Confederation of British Industry



How to grow profitably

1. Build profit (not turnover) targets into your business plan and use profit as your key performance measure for the business.
2. Be realistic when you estimate the increased overheads you will incur in order to increase your product/service capacity - can you maintain your profit margin if you grow?
3. Make sure you assess all contracts on the basis of profitability and turn down work if you need to. You will be surprised how many apparently large contracts can increase your turnover without increasing your profit - try to negotiate larger payment on this basis and if this isn't possible remember that it may be best to turn the wrong kind of business away.
4. Assess your risk - make sure that your growth is not fuelled by a single client - if you have a high dependency on a single client each additional piece of work you win must be matched by another piece of new business.
5. Maintain expense control - keep a close eye on fixed costs and expenses. Watching the pennies will help protect the pounds.



Stage four: maturity – fighting apathy

“Now the business is established, owners need to ask themselves: do they still have the drive, ambition and people to keep moving it forward? Apathy is the number one business killer. When a business matures it’s easy for it to get set in its ways and to stop looking for the fresh challenges that made it a success. It’s also at this stage that many businesses face the dilemma of whether there is still more to achieve or if it’s time to stand down, sell up and move on.”

Mark Cliff, Commercial Distribution Director, AXA

Tipping Points

Failing to plan:

Once a business is established and has proved itself a success there can be a tendency for it to rest on its laurels. If a company shows a reluctance to challenge tried and tested formulas this will impact heavily on the development of the business. Resistance to change means it will miss out on essential planning to take it to the next stage which will have a detrimental effect on the long term goals of the business.

Loss of direction:

All companies need a strong figurehead and it is essential that owners are an inspiration and role model to their employees. Once a business owner’s ambition has been realised and a company has achieved its initial objectives, there can be a reduction in the drive and desire to run the business.

Solutions

Live your business plan:

A business should have a system in place whereby plans are continually reviewed and updated. For example, the processes that exist in a business continuity plan should be regularly re-evaluated to respond to the changing needs of the company. This will ensure that complacency is avoided, existing plans are amended and new plans made when and where necessary.

Lead or be led – do it right or appoint a successor:

Plan your exit. If the company’s founder is preparing to stand down, the importance of a successor’s role and experience is essential to the future growth of the company. This person should be familiar with the company and the industry, but most importantly, this person must be a leader.

Tipping Points

The brain drain:

The calibre of a company's people is what success is built on. When a business has matured and achieved its initial objectives, the biggest challenge is to retain the talent that has contributed to its growth and success. Through the experience they have gained, these long-term employees may feel they are ready to move on to new challenges. The business now has to address how to keep hold of them and make it worth their while to stay.

Erosion of customer relationships:

A business has to balance relationships with both its customers and its competitors. However, when a business has established itself and made the initial customer wins, there is a danger that retained customers can become neglected if the business does not keep up the same consistent level of service. The company has to ensure that these relationships are nurtured and sustained. It is also key for a business to keep one step ahead of the competition and be aware of what rivals are offering to their customers and by extension might be offering to yours.

Solutions

Strengthen company culture:

As the company matures, employees need to grow with the business by learning new skills and taking on new responsibilities. Working closely with human resources to keep lines of communication open between senior management and employees is important to ensure everyone feels part of the business. Formal training programmes will prove a business is committed to its people and help you retain talent.

Build strong relationships:

Businesses must ensure that contact with customers is a key part of the business strategy. Organising the company to focus on the needs of customers by regularly communicating with them and looking at new ways to update your customer relationship marketing (CRM) is the recipe for success. Competitor intelligence and keeping abreast of the industry landscape will establish what makes your company different from its rivals and build your unique selling point (USP).

Tipping Points

Hiding the crown jewels:

As a company grows, the founder gains in experience and extends his or her contacts and knowledge. However, barriers can arise when senior team members don't manage that knowledge internally. Shared knowledge is essential to success and growth and can have a massive impact on how a business operates, client retention and new business success. Don't hide your company's light under a bushel – share the secrets of your success and mobilise employees to grow it. Grow the next generation of leaders for the business.

Solutions

Manage your knowledge:

Establish a process whereby knowledge is shared. A business must have a collective database of contacts, customers and suppliers that can be easily accessed as well as a straightforward way of sharing company information. Enterprise thrives on teamwork and collective knowledge so make sure everyone in the business communicates information with each other. By doing this, information can be managed and disseminated more efficiently.

Creating business energy through employee engagement,

“When employees feel they are part of a growing business they are more likely to be highly motivated, more responsive to change, and to perform better, according to recent research by the Chartered Management Institute into the energy levels of employees.*

For businesses to achieve successful growth and high levels of employee engagement, it is usually necessary to share leadership responsibilities more broadly than a single director or owner manager. Developing a management team is important as each member of the team can bring their own particular areas of expertise. In addition, the business will benefit from having its overall direction and goals viewed from different perspectives.

In planning for growth, any review of the business should identify skills that are important to it and those skills that are currently possessed by staff. Some types of expertise might only be needed from time to time and it may be better to outsource as required, for example using a financial consultant on a short-term basis during a capital expansion phase. However, it is crucial that the core focus is on developing the management team - business owners must recognise that most people will need some form support to achieve the new challenges of growing the business.”

Petra Cook, Head of Public Affairs, Chartered Management Institute

**A summary copy of the Institute's latest report into creating business energy can be found at www.managers.org.uk/researchreports*

How to reinvigorate your business:

1. Have a vision. Spend time brainstorming with your team and come up with a compelling vision for the next one, three, five and ten years of the business. Present it to employees and customers and get everyone on board. Mark this renewal with fresh marketing materials and even an updated brand identity.
2. Motivate your team. Ensure you keep your best employees stimulated by giving them new challenges, and incentivise them to meet the challenges by rewarding their hard work by linking bonus schemes to their performance. Show them they have a clear career path if they stick with you and consider an employee share option scheme so that they feel part of the business for the long term.
3. Have a change of scenery. Consider away days where you and your team leave the familiarity of your usual work-space and go elsewhere for activities such as team-building sessions and brainstorming. Being outside your usual environment will encourage you to think differently.
4. Listen. Turn to a local networking group or create your own: surround yourself with peers who can inform and inspire – people who will help you look at your business with fresh eyes. Listen to your customers; their needs may be changing.
5. Have a break. Your personal well being has a huge impact on the business – take proper holidays, delegate big challenges to your management team and come back refreshed, to tackle problems with new energy.

Stage five: bridging the gap

“Many business owners spend their life building their companies. Yet succession planning is often a blind-spot for business owners. Too often it is perceived as an unfortunate end to a happy career, but it can and should be a time when owner release the true value of the business and are rewarded for all their hard work. By taking due care and managing the process successfully, owners can move on to the next phase of their lives, safe in the knowledge that the continued success of the business is guaranteed.”

Joe Aspey, Risk Analysis Services

Tipping Points

Not planning the exit process:

More than 90% of businesses have no documented plan for succession according to European Commission estimates. Business owners tend to see succession planning as an issue only when it becomes critical in their later years. However, developing effective plans can and should take several years. Addressing succession late will not leave sufficient time to do this and can result in the owner-manager not profiting fully from the sale or transfer of the business.

Solutions

Document knowledge for easy transfer:

How well equipped are the management to take over? It's easy to ignore this issue in favour of day-to-day financial and operational issues. Over-reliance on the owner's managerial and knowledge input will make implementing a succession plan much more difficult. Knowledge transfer to the management team should be a priority, as well by building up resources and formalising a process of documenting this knowledge.

Tipping Points

Getting advice from too narrow a range of sources:

A recent Federation of Small Businesses survey found that accountants are the most common source of advice for owners when it comes to business transfer. The fact that firms must produce accounts and require legal services means that for many, accountants, banks and lawyers are an obvious choice. Whilst tax, legislative and administrative issues are important, there are also wider business and strategic considerations that will be missed unless professional advice comes from a number of sources.

Solutions

Seek advice from a range of sources:

Ensure that any decisions made are rational and objective. Emotions are likely to be running high and decisions made at this time must be the best for you and your business; professional advice will ensure they are. Support from both your accountant and a solicitor who specialises in business conveyancing is essential. Many businesses turn to their bank but you should also look to a number of other specialists for advice, including key business associations, peers who have been through similar experiences, a valuer with knowledge and expertise in your sector, a financial adviser or even a consultant who specialises in succession planning.



Tipping Points

Transferring to the wrong people:

Often the crucial decision of who to appoint is taken without due consideration. Issues about losing control, ageing and lack of non-work interests can cloud owners' judgment about who is the best successor. In a great many cases, owners will unthinkingly and automatically transfer the business to second-generation family management, for which rates of success are low. Another common problem is appointing as successor the senior manager whose personality most closely mirrors their own rather than the most committed and capable individuals available given the new challenges ahead.

Solutions

Reclarify long term goals / transferring the business to the right people:

Business owners might sell to an outside entity, transfer the business to the next generation, sell to the management team and employees or put up an initial public offering. Compare all the available options and identify which will best help accomplish your personal objectives and goals for the future of the business. Preparing for the sale long before putting the business on the market will maximise its value. When deciding to whom to transfer the business, owners should select the successor (existing management team, newly appointed successor, family members, shareholders) according to who is best qualified to run it successfully after they leave.



Tipping Points

Selling the business short:

Without paying attention to market and business conditions, there is a risk of selling the business at the wrong time and not receiving maximum value for it. In addition, business owners often fail to profit from their exit because they are unprepared; do not properly investigate their buyer or talk to only one buyer; talk to their competitors; underestimate the value of their business; or disclose prematurely. Owners who fail to prove the business' worth will find it impossible to reap the full benefit of its sale.

Unclear business continuity plan:

The new management and the business may find themselves unable to continue without the owner if there is no risk management strategy in place. Indeed, employees, suppliers and customers may all be counting on the owner to have a continuity plan. Without planning for any and all events -- such as retirement, death or disability -- that can trigger the succession plan, continuity of operations cannot be guaranteed and key client or customer relationships will be disrupted and potentially trigger crises.

Solutions

Approach carefully the business valuation:

Approaches to valuation include earnings-based value, cash flow value, asset based value and public company multiples value. Also factor an analysis of the business strengths and weaknesses and its strategic position in the marketplace in the valuation. Proper timing and preparing the business for sale (for example: recasting financial statements, evaluating your management team etc) will also push this up. Business owners often spend a lifetime making themselves indispensable to the business – but only those business owners who can set up the company to succeed without them will obtain the best value for their business.

Developing a detailed contingency plan:

Integrate succession planning as part of any medium- or long-term business strategy and treat it as a work in progress. Don't wait for critical events or a change in circumstances to consider succession issues. Devising an effective succession plan and exit in a way that maintains the value of the business requires sufficient timing. A business continuity plan should also include an up-to-date financial statement, a statement of what happens with key employees (who is in charge / what roles they play) and identify a board of advisers consisting of independent, skilled business people.

Succession planning,

“Research indicates that over one third of owners of small and medium sized enterprises (SMEs) will fail to transfer their businesses on to family, employees or external parties. In such circumstances the only return owners will receive is from the sale of the business' tangible assets. When the owner decides to exit, these businesses will cease to exist. This is of great concern as it represents a massive financial loss to individual owners and the economy as a whole. There are many reasons why owners of SMEs exit without thinking about succession. Business owners are often preoccupied with developing their business and survival, or simply do not recognise the value of their business, this is particularly common in knowledge based enterprises whose greatest assets are often intangible.

The majority of SMEs have no succession plan in place to exit their business smoothly when the time comes. Many business owners only consider succession when they get near to retirement which is invariably too late. Therefore, SMEs should develop a succession plan (in addition to a business plan) for their company and this is the ideal time for them to seek advice from their accountant about issues such as tax liability (e.g. Inheritance tax) and ensure they are well placed to get maximum value from the business they have worked so hard to build.”

Robin Jarvis, Head of Small Business Affairs, Association of Chartered Certified Accountants



Conclusion

No-one said it was going to be easy, after all our own research shows that Britain's entrepreneurs are driven by a thirst for new challenges and a desire for independence, rather than the option of a simpler life! But we hope this guide will prove useful in helping you recognise the opportunities and risks your business faces at each stage of its lifecycle. Here is our summary of your five key steps to success:

Stage One – Write a detailed and effective business plan: Do your research and plan how to achieve your goals in a step by step fashion – include clear objectives and remember that your business plan is a roadmap for the business rather than a document for the bank manager.

Stage Two – Hire the right people to build success: Making the right decision will turn your company into a strong, healthy and profitable operation. Identify gaps and take the time and effort to hire the right people with the necessary skills.

Stage Three – Grow profitably: Don't chase turnover – focus on your profit margin. Keep careful control on your growth, even if it means turning away business.

Stage Four – Reinvigorate the business: Ensure you have mapped out a clear vision and strategy for the continuing success of the business and get buy in from your employees and your customers.

Stage Five – Make an exit: Put care and effort into the sales process. You deserve the rewards for all your hard work and doing so will ensure you release the true value of the business when it comes to selling it.

Running a business is an extremely challenging but rewarding task. Every business owner will need advice to negotiate the pitfalls and opportunities at some stage. Should you require further information or support, the [axa4business website \(www.axa4business.co.uk\)](http://www.axa4business.co.uk) has plenty of resources to supplement this guide. We wish you and your business every success for the future.

Paul McNamara
Group Strategy Director
AXA

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