FROM START-UP TO GROWN-UP

BY BRYAN WORN

How to overcome the challenges of a new business
ABOUT BRYAN WORN

Bryan Worn is a business mentor, coach, author and speaker whose outcomes-focused approach allows business owners and leaders to transform their lives and take their businesses to the exciting next level.

Bryan's unique perspective on SMEs and family businesses is the result of his extensive experience as a chartered accountant and entrepreneur.

Since starting his professional life as a chartered accountant more than 40 years ago, Bryan has owned and operated a number of businesses across a diverse range of industries and professions, including retail, wholesale, manufacturing, property and hospitality.

While most of his businesses have been successful, like most business owners, Bryan has experienced challenges along the way. The lessons he has learnt give him that incredible down-to-earth value his clients appreciate.

Bryan's strength lies in his understanding of the issues that business owners face and the way those issues affect all facets of their lives. This strength positions him to inspire business people to achieve all that's possible.

Bryan is an Accredited EXTENDED DISC© Consultant, a Master Practitioner of Neuro Linguistic Programming (NLP), and a Certified Social + Emotional Intelligence Coach, as well as being a Fellow of The Institute of Chartered Accountants in Australia.

Bryan's combination of world-class programs and his extensive practical experience and coaching skills gives his clients the ability to enjoy transformational change and the outcomes they wish for – in their businesses and personal lives.
PROFITABILITY

There are two main issues of probability when it comes to start-ups: one is knowing whether the start-up is profitable, and the other is knowing what to do if it’s unprofitable.

The notion that “you can’t expect a business to be profitable at the beginning” is a myth. This myth can develop the harmful mindset that profitability is not important in the short term. The truth is, it is an important topic for every individual business.

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There is no “one size fits all” approach, but the safest rule is for businesses to aspire to reach profitability from month one. When this is not the focus, it prevents the business from growing to where the founder planned for it to grow.

Using a competent accountant and bookkeeper from day one is essential. It means business owners will know how profitable they are. And if they’re losing money, they will know when they are expected to turn to profitability.

People who have been in business for a long time have acquired the skills and knowledge to be able to read their figures. However, many starting out have had no such experience or training. It is crucial that they have somebody who can read the situation accurately to advise them.
CASH FLOW

Cash, in the short term, is more important than profit. Businesses need to be able to pay their suppliers, overheads and wages, including a salary to the business owner.

When cash flow dries up, everything dries up. Just as a farm cannot exist without water, a business cannot exist without cash flow. In the early stages of a business, cash-flow planning and management needs to be monitored weekly, if not daily.

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Businesses must develop a cash-flow objective. This should include the cash reserves they want to build up if they haven’t got them at the commencement of the business.

New businesses should have at least three months’ worth of business expenses and cash-flow requirements in the bank when they start. If they don’t, they will be busy playing catch-up. If one thing goes wrong, it can turn the dream of success into a reality of failure. It is like a football team behind on the scoreboard: the players take risks to try to catch up, but make more mistakes and end up conceding more scores to their opposition.
KNOWING WHO MY CUSTOMER IS

Even when we have a specific product or service that we want to sell in our new business, we need to be crystal clear about who our customers are. Many sales courses discuss identifying your ideal “avatar”, and new businesses can waste a lot of time and money if they do not get this right. They struggle with the idea of reverse engineering the process and instead use a top-down approach, which can include countless erroneous assumptions. Identifying the customers you want and how to communicate with them is essential to getting a new business, product or service off the ground.

WHAT AM I SELLING OR PROVIDING?

Start-ups face two problems relating to products and services. At one end of the spectrum is the entrepreneur who has an idea they are passionate about, but they don’t test the waters early enough to verify that their new product or service will be as enthusiastically appreciated by customers or clients.

At the other end of the spectrum is the entrepreneur who has many products or services in their inventory. Often, these offerings have not been fully thought through. It’s only after an offering has been extensively considered and its possible commercial value established that it should be fully developed. A scatter-gun approach can quickly waste resources during those first crucial 90 days of a new venture or product launch.
WHEN SHOULD I HIRE SOMEONE?

New entrepreneurs and business founders quickly learn that there is more to do in a business than they had envisaged. The question soon arises, “When can I hire somebody?” Getting that initial hiring decision right in terms of when, who and what they will do can help create the leverage required for the business to grow.

Many new business owners look for a clone of themselves as the solution to all their problems. This is particularly true when they have been successful in the early stages of the business.

Hiring someone should occur when the business needs them and the owner is ready for it.

But one of the worst experiences a business owner can have is, in fact, hiring someone just like them and finding that person is like them but not the same as them. They forget that doing the job adequately is more important than doing it their way.

Utilising the services of a coach or mentor is one of the best ways to avoid this problem. It also pays to get opinions from HR consultants so that the hygiene factors (pay, conditions, etc.) are included in the package that’s offered. Hiring someone should occur when the business needs them and the owner is ready for it.
ACCOUNTABILITY

One of the greatest motivators and advantages of having your own business is the freedom it brings. However, this freedom can be overvalued if the business owner has no accountability to anyone else for their performance. Children regularly ask their parents, “Who is your boss?” But small business owners and the self-employed generally do not have a boss.

Personal accountability is a trait of successful people. Being accountable to someone else is one of the best ways to display this trait. Successful business owners often talk about the best bosses they had, and how those bosses helped them to become accountable for doing what had to be done, doing it to the best of their ability and taking responsibility when things did not go according to plan.

HAVE I REALLY GOT A BUSINESS?

When a business is overly dependent on the founder for the generation of revenue, it is not truly a business. People who start a new business that is totally dependent on them for everything will quickly ask themselves whether, in fact, they have a business – or simply a self-employed job.

The principles that apply to a business are different to those that apply to a self-employed job or practice (where the principal is the sole revenue generator). It affects pricing, profit requirements, risk protection, etc. It is important for new business owners to work out as early as possible whether they have a business or not. If they decide to operate a “one-man band”, a different set of rules apply.
RUNNING OUT OF MONEY BEFORE IT SUCCEEDS

The emotional self-doubt about career and lifestyle can easily gain momentum. Often, a business owner begins to question their decisions: “I’m not cut out for this,” “What will I do if it goes wrong?” and “Should I go back to that well-paid job I had?” (They’ve forgotten all the pain and reasons why they left).

“You can only spend your money once” is a truism for start-ups. Many new business owners have limited amounts of capital and often make the mistake of spending funds on the wrong things. Examples of this include fancy offices, extravagant equipment, and marketing and advertising that is not focused or measured.

COMMON SKILLS SHORTAGES IN NEW BUSINESSES

Business owners require many skills that they may not have learned or acquired prior to starting the business. Frequent gaps in these skill sets are:

- Financial: Understanding P&Ls, balance sheets and cash flow.
- Hiring skills: Knowing how to hire for behaviour as well as competency.
- Delegation skills: Understanding the difference between delegation and abdication.
- Business planning: Working out the logistics and resources required on a regular basis.
- Understanding essential taxation and other statutory requirements.
- Time management: Being responsible for many functions of the business and allocating time correctly for them.
FREQUENT MISTAKES IN NEW BUSINESSES

- Saying “yes” to all customers or clients.
- Not undergoing a reality check on a regular basis.
- Thinking they know it all.
- Persisting with the wrong team members.
- Skipping on professional fees to lawyers, accountants and mentors.
- Flogging a dead horse – a refusal to accept that something is not working.
- Not documenting processes.
- Getting distracted by early successes, eg. getting large customer contracts and failing to realise they may not last.
- Diversifying at the wrong time instead of focusing on core business.
- Allowing overwhelm to develop.
- Not looking after their health and personal relationships.
- Bringing life partners or family members into the business without rules.
- Forming commercial partnerships without understanding the legal issues and establishing a dissolution process at the beginning of the relationship.
THE 5 PHASES FROM START-UP TO GROWN-UP

1. GETTING STARTED

In the first phase of the journey from start-up to grown-up, the focus must be on:

- Getting clear on your product or service.
- What market you’re in.
- Ensuring there is enough capital to meet all set-up costs and overheads until the business is profitable.
- Generating revenue.
- Identifying and learning skills required for what needs to be done at the time.

Often, business founders waste time and money finding out what they don't know. Getting advice from a mentor or coach will help build momentum so the business can move to the next stage.
2. BUILDING BUSINESS FOUNDATIONS

Once it is clear that the business has a future, the focus should be on:

- Establishing infrastructure in terms of physical space if required.
- IT.
- Policies and procedures.
- Position descriptions.
- Processes.
- Administrative and financial systems.

At this stage, the founders will hire one or more employees on a full-time or part-time basis. Getting solid foundations in place is critical before expanding the business and increasing staff numbers.

3. GETTING LEVERAGE FOR GROWTH

Businesses can be grown by leveraging money (borrowings) and people (effort). This is known as “other people’s time and other people’s money”. If effective position descriptions, processes, policies and procedures are not in place, then the environment is ripe for confusion. In extreme cases, chaos will develop.

In addition to training staff, business owners must acquire the skills to manage people and delegate effectively. It is estimated that the number of daily interruptions a manager experiences is the square of the number of people who report to him or her. The cost of hiring staff is estimated to be up to 75% of the annual salary, so poor hiring decisions are expensive.
4. PERSONAL FREEDOM

When a functioning team with effective management is in place, the business owner can set out to regain lost weekends and start thinking about holidays again. The sooner this occurs, the better for the owner’s personal and family relationships.

It is often forgotten that the passion and vision of the business owner is theirs and nobody else’s. Life-partners/spouses and children have varying levels of tolerance for their absence or distractedness. Developing a principle of “it is the quantity of time at home and the quality of time at work that matters” will help build the business and the family.

The earlier an investment plan is implemented, the earlier the owners will be financially independent.

At this stage of the journey, business owners – if they have not done so already – will start to make financial investments outside the business. If they have no experience in this field, they should acquire the services of a financial planner or investment adviser. The earlier an investment plan is implemented, the earlier the owners will be financially independent. Too often, business owners have an inflated value of their business and are disappointed with the offers they get at sale time.

Building an investment income stream enables the business owner to reduce the salary they draw from the business, so that they can hire a manager and retain ownership of the business if that’s what they wish to do.
5. FINANCIAL FREEDOM

Ultimately, business founders want to either sell the business or not have to work in it. In either case, they need an income that meets their lifestyle needs in the long-term, including retirement.

The business will now be mature and the owners’ contribution will be mainly strategic, based on their experience. Their income from the business will probably be a combination of dividends and directors’ fees. Hiring a CEO or general manager means they lose day-to-day control, but with proper reporting and regular management meetings they get more comfortable with this.