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THINGS AREN'T ALWAYS WHAT THEY SEEM

Patricia Mathieson warns that a veneer of success sometimes hides the fact that businesses are struggling. She explains that asking for help when the trouble starts can often return them to profitability.

I recently heard a story about a local accountant, now retired, who used to travel regularly to clients' premises. Visiting a farm one day, he encountered two old fellows, filthy from top to toe, digging out a ditch.

"You're six months overdue settling your bill," he said.

"Right you are," replied one of the men. "Come into the house and I'll give you the cash."

There in the kitchen was a cupboard stuffed full of notes. On inspecting the books, the accountant found that the farm was flourishing, contrary to the appearance of the dilapidated property. Administration, however, was clearly not a priority.

Shortly afterwards, he had occasion to visit what looked to be a highly successful business on one of the

(then new) science parks with a row of brand new cars outside. Yet it turned out that the firm owned virtually nothing: everything of any substance was leased and it was struggling to cover its costs.

Outward appearances can be deceptive: presentation can give quite the wrong impression; hence the expression "caveat emptor", or "buyer beware". This is why some people who run businesses place such emphasis on outward signs of success. They seem to believe that a mask of affluence will attract customers, which it may do initially. It also gives them a sense of achievement, whether or not it is warranted.

But if spending money on outward appearance is not supported by sound business planning, operations and customer service from the outset, a business can quickly founder. For some years I worked with a distributor of the

world's most successful enterprise applications software. The customer base expanded steadily and staffing levels grew to match, until, that is, a new managing director arrived. He started by giving the entire premises an overhaul so as to create the impression of success and he then continued spending. However, he neglected to implement a business strategy that would provide a proportionate increase in sales. Within eighteen months the company had called in the administrator.

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"Successful entrepreneurs behave like big businesses from day one," commented David Gill, CEO of the St John's Innovation Centre, at a recent Institute of Directors seminar in Cambridge. "They treat every board meeting as a masterclass where they investigate anything that has gone wrong and discuss how to do better next time." In other words, even start-up companies need long term vision, goals to achieve along the way and a strategy and operational infrastructure for getting there. They also need flexibility and an understanding of the risks they face, as well as an idea of how they can overcome them.

People start businesses for many different reasons: independence, lifestyle, the ability to control their own affairs, or simply because they enjoy doing the job. As their businesses grow, they find themselves called upon to manage all aspects of a business, notably strategy, operations, culture and risk, as well as balancing the budget and doing the actual job. This is not something that comes naturally to everyone, but many entrepreneurs find it hard to accept that timely help can make all the difference to their businesses.

Sometimes they prefer to hide behind a mask of success. Yet this is one of the worst things that owners or managers can do, especially in the current economic climate. Many firms are working hard and even borrowing just to cover their costs, and there is nothing left to put into growth. They could be in for a hard time when the recovery finally begins. Loans and overdrafts incurred before the crash currently cost little to service, but once

interest rates start to rise, repaying them will be more difficult. At that point, the banks will be more inclined to call in business debts.

Meantime, businesses struggle on in the hope that they can somehow make an unexpected breakthrough. "The problem is that business owners ask for help far too late," says Suki Bains of Business Recovery and Insolvency (BRI). "We aim to save businesses, not close them. If people came to us when the trouble started, we might be able to find a solution that helps return them to profitability."

My company, Bardwyck, also specialises in business recovery, albeit from the strategy and operations perspective rather than the legal and financial. We, too, find that timely intervention can have a huge impact on our clients' success rates.

Take an example from the retail sector. A friend of mine ran what, for years, was an extremely successful antique shop. Then fashion changed and people wanted modern furniture rather than antiques. The number of visitors to his shop fell markedly, but demand for restoration and refurbishment actually grew. So he rented out his retail premises and expanded his workshop. Today he is extremely busy doing what he is really good at: bringing good quality old furniture back to life.

It does not always work like this, though. Owner managers often find it too hard to accept advice and change, even when they ask for help. A mother-and-baby shop I advised in Knightsbridge had all the trappings of success, but could not compete financially against Harrods, national chains and the internet. Analysis of the business revealed that much of their capital was tied up in unsold stock. Their core strength lay in their profound knowledge of childcare products and issues. We recommended a reduction in stock levels and a refocusing on the provision of information and advice to parents and parents-to-be. Online forums, baby clubs, discussion groups, surgeries to advise on baby care and products would be complemented by a small selection of high value items sold from the premises.

Sadly, the owner was really hoping for reassurance and could not accept the need for change. The business continued to decline and he eventually lost both his source of income and his home. It was a lesson to me, too. First, don't judge a business by its outward appearance. Second, encourage business owners to ask for help sooner rather than later. ■



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