

Chapter 7: Small Business in Perspective

7.1 INTRODUCTION

This chapter is addressed to those readers who have had little or no experience of small business. Typically they will have been employed in the public services, the corporate world, or have recently completed their education. This chapter will investigate the type of mind needed to be successful in small business which, as we shall see, is quite different from being employed. It is something about which the novice entrepreneur needs to be fully aware.

7.2 THE CHOICE

Jeremy (solicitor) highlights the profound nature of the choice that needs to be made before previously employed people leave a comfortable niche to go it alone. “It’s a matter of leaving the familiar for the unfamiliar – and the decision shouldn’t be taken lightly. The attractions are the supposed ‘freedom’ and not being answerable to a boss. I would suggest a checklist that you need to consider”:

- What are the views of your partner and family – will they be supportive?
- How will you support yourself/family financially for say 12 months?
- What are the financial implications – how soon do you expect to reach an income similar to the one you have previously been earning, or will there inevitably be a reduction – if so can I/we cope?
- Do you have any/enough experience of the area of work you want to move into?
- Do you have the necessary business skills? (If not, how do you propose to acquire them?)
- Do you have a product or service that you can sell? (ie is there really a market for what you have to offer?)
- Can you keep your domestic overheads to a predictable minimum?
- Do you have a realistic business plan?
- Do you have good health and sufficient energy and enthusiasm to sustain yourself and your business?
- How much would you be risking and can you afford it?
- If you are proposing to introduce a new product don’t burn your boats. Keep the day job – at least for the time being until the market has been fully tested.

Note: Jeremy warns that just because people have job skills does not ensure that they also have business skills – the two sets of skills may be entirely different.

7.3 THE SWITCH FROM EMPLOYMENT TO SELF EMPLOYMENT

- In the context of the ‘now – must have’ society substantially based on credit, one of the major differences between the employed and the small business person is their attitude towards money and credit. **Vic** (driver training video): “One of the first things I really got to know about **Terry** and **Liz** was their chaotic attitude to money. On my first visit to their home, I found that a loft extension was unfinished. Nothing unusual in that you might think until it came out that they’d run out of money to complete the project some months before – so their house, to be honest, always seemed to be in a state of turmoil. Like many people they thought nothing of getting to the limit on their credit cards and took the attitude that ‘everyone else does it – so we’re only following the crowd.’ I think the major problem is that for many people in the public services, while they may not earn fortunes, there is a feeling of protection so they spend up to the limit and beyond; saving is almost regarded as a dirty word.”
- In small business there is a need for a broadly conservative attitude to money. The keynote seems to be to save – avoid borrowing and buy only if you need to, avoid luxuries and other ‘wastage’ of money. In general, the more successful small business people tend to develop a fairly parsimonious attitude to money. They look to invest rather than spend money.
- While working hours in the UK are reputed to be the longest in Europe, the expectation is for longer working hours in self-employment as a matter of course (although the ‘lifestyle’ business people have bucked that trend).
- External factors can be a threat to any business but the effects can be felt very rapidly in small business so there is always the need to be fully aware of what’s going on around you. Unlike the corporate world where the team and support structure may give a sense of security, in small business you are on your own – the buck stops with you.
- While stress has allegedly become more commonplace in employment, it has always been a feature of self-employment and small business. It’s essential that anyone contemplating self-employment is fully able to cope with stress and uncertainty.

74 SOME DIFFERENCES BETWEEN CORPORATE EMPLOYMENT AND SMALL BUSINESS

Richard (leisure marine): “I found four main differences between running a department within a corporate environment and running my own small business:

- **Direct contact:** “In a department, it’s your staff who have the direct contact with your customers on a day-to-day basis. I only really learned what clients were thinking – indirectly – through my staff. In my business now, I have direct contact with my customers.”
- **Fiddles:** “When you’re running a department, as manager you tend to turn a blind eye to the various fiddles you know your staff are up to – provided they hit the all-important targets. But when you’re running your own business you make sure that you’re doing it in the most efficient and economical way you can because ultimately it’s all off the bottom line!”
- **Finance:** “This is probably the biggest issue – that of running and controlling your finances. You have to get to grips with the minutiae. All of a sudden you have to become a book-keeper, financial controller, estimator, clerk, salesman and general dogsbody ... all skills you don’t have when you’re running a department – there’s always someone else who’s responsible. The benefit when you do it yourself is that you’ve always got your finger on the pulse all the time.”
- **Being well organised:** “When you’ve no longer got a secretary, you’ve got to organise yourself – your expenses, receipts, diary, appointments, follow-up calls and all the rest of it. So you must be very well organised.”

75 THE CASE OF THE EX-CORPORATE EMPLOYEE

Lorraine (property management): “We did have an ex-corporate IT manager working for us for a while but in our view he was totally unsuited to small business. As a manager in a large company, costings were provided for him and he relied heavily on the usual array of corporate support like a regular income. He had the departmental team behind him, he could delegate, he had the expense account and the car and was in a position to cover up mistakes – anything too big and he would simply have moved on to another company. What we found was someone who was full of ‘management speak’, ‘ideas’ and ‘big pictures.’ That’s fine when you’re doing it with shareholders’ money. He

also lacked the ability to get and stay focused which is what you have to do in small business. It may sound very boring, but that's what you have to do and if you don't stay the best at what you're doing and keep your customers happy – then you're in dead trouble."

Ross (MD management buyout): as a former company employee himself, he also talks of the corporate man being protected with a support system, often not being in close contact with those on the floor but being in a position to delegate. "Often he doesn't like to get his hands dirty – status and title are all-important to the corporate man."

In criticism of small business people he finds that they are often too concerned with detail and being hands on rather than thinking about strategy. Of his current sales director he says: "While he's very good at dealing with the day-to-day stuff – he's no good at strategic thinking, in other words where we're aiming to be in 3 years' time and how we're going to get there. If the sales director had the protection of a large company he might continue to blossom, but in a small company (where he needs to take the major initiative and cannot delegate) he is floundering. While I'm prepared to support him up to a point – it's the results that we need. That's the downside of small business – it cannot afford to carry the walking wounded".

7.6 THE BOARD

In an attempt to develop his small business and get away from "... too close attention to the minutiae at the expense of strategic planning," **Ross** has introduced an important new addition to the board: "He's a professional chairman who understands what his non-executive role is and we're challenging the rest of the board to take on a different, more strategic role – to understand the financial ramifications of their decisions – all that kind of stuff. It's all about maturing from a small to a medium-size business."

Ross also stresses the need to be prepared to borrow in a developing business when contemplating expansion (**Mike** borrowed half a £million to part finance the investment in his industrial estate).

Comment

Ross has interesting views on small business in comparison with the classic entrepreneur such as **Don** (import entrepreneur). **Ross** sees the ideal small to medium-size business in terms of building a strong and successful enterprise whereas he regards the classic entrepreneur as a buccaneer moving from one profitable project to another. "They tend not to believe that there are rules which

prevent them from exercising their imagination”. In contrast, **Ross** regards himself as a rule follower – basically because of his engineering background. He is a rational opportunist, ie he analyses and thinks about things before he makes a decision. He admits that he thrives when he has a mentor and is learning from those: “... who’ve been around the block a few times.”

(However he is currently planning to get rid of the founding MD of his company and his original mentor who, in his view, has basically outlived his usefulness).

7.7 SOME VIEWS OF FORMER COMPANY EMPLOYEES

Ron (wholefoods) “As a ‘latent entrepreneur’, what I found most difficult to cope with when I was working in companies was the strait-jacket – all the ‘do’s’ and ‘don’ts’: how you should behave, talk, act and feel. What I’ve found in small business is the fact that you don’t have to play political games. You don’t have to be politically correct. However, on the downside you cannot delegate, there is no support system and if things go wrong, you’ve only yourself to blame and yourself to rely on.”

Vic (driver training video): “The trouble with **Terry** was that as an ex-public service employee, he had enjoyed the ‘protection’ usually associated with that kind of employment. The bottom line was that he really had no idea about handling money. This problem was made worse by the fact that he didn’t listen to other people and learn from those who know about running a small business – and don’t forget the project was financed with OPM (other people’s money).”

Dennis (teashop): “I had a fairly broad experience in large companies before **Molly** and I decided to take on the teashop. But the worst experience I had was working for an Industrial Training Board – I won’t say which – but they seemed to have no understanding of balance sheets and profit and loss but instead were more concerned with the jargon: ‘putting systems in place’ and being seen to ‘deliver training’. They were also mad keen on ‘initiatives’ and ‘political correctness’. On the other hand they had no comprehension of making a profit to survive. I think the majority of them could have benefited from a spell in small business where the realities of running a business day-to-day and making a profit is the name of the game.”

7.8 THE ‘CULTURE SHOCK’

Philippa (accountant) highlights some of the surprises and shocks she discovered when she changed from working in a corporate environment to running her own sole trading business:

- "I found that some people 'looked down' on me, for example at parties and other social occasions, especially having worked for a prestigious company."
- "I found that I missed the numerous social occasions to be enjoyed in a large company."
- "Time management became a bit of a problem when I first started and I found that this was compounded when you're working at home. You can very easily find yourself pottering. To counteract this, what I tend to do is to 'prepare myself' to go to work – so I'll usually shower, get dressed and made up rather than wandering around in my dressing gown all day."
- "I found that I could go a whole week without seeing anyone – it's easy to become insular and isolated as a sole trader and e-mail, voice mail and faxes simply make the problem worse."
- "I never realised how important colleagues and the social contact with them can be. They're important for socialising, problem-sharing, gossip and whingeing – all part of everyday human contact."
- "I think there's a huge potential problem for the sole trader – in whatever they do – to store it all up during the day and then unload on their spouse and family in the evening."

Richard (leisure marine) had been a regional sales manager for 15 years before suddenly and unexpectedly being made redundant. When he set up his own marine leisure business he found the following differences:

- He no longer had a regular, predictable income. "So you need to develop a different attitude to money. Even if the business seems to be going well – don't be tempted to be profligate with it, because you never know what's around the corner – you simply must have reserves. So the advice is: don't buy the Porsche yet – but hopefully, there will be a time when you can, when the business is very well established, is really performing and you've got everything covered financially. The problem with some people in small business is that they borrow money to buy things they cannot afford, and if they hit hard times – they're in trouble. You always need to put away more than you spend."

- “I have no one to delegate to – everything has to be done by myself.”
- “I’m now probably more aware of where the money is coming from and going to.”
- As a corporate man: “Basically I just had targets and a team to achieve them. My main focus was to satisfy my lords and masters.”
- “Whether you really are or not, there’s always the feeling of protection in a corporation.”
- “In small business you have to assess the needs and requirements of your customers and satisfy them directly.”

Richard’s advice to mature would-be entrepreneurs

- “Do your homework – make sure there really is a market for your goods and not just a scotch mist.”
- “Don’t overstretch yourself and put in more than either you can afford to lose or to get out of if it fails – without losing everything.”
- “Make sure you know what you’re doing both in terms of the subject of the business and how to run a business.”
- “Make sure you cover your backside. Have some contingency plans both in terms of getting out if you need to and alternative business plans.”

7.9 LIFE IN SMALL BUSINESS

Geoff and Beryl (newsagents and general stores): “We found that there is much more paperwork than we expected. Then we have to do the books every week and wages and VAT at regular intervals. We’ve always been savers, but in business you’ve got to watch the money all the time and not spend unnecessarily – you never know what’s around the corner. Holidays are another

problem. If we did take a holiday, on top of it would be the cost of temporary staff – maybe £300 per week – so the result is we haven't had a holiday for 20 years. Probably one of the biggest differences between being employed and self-employment is with regards to retirement. If you work for a company, traditionally you have expected to retire at 60 or 65 with a pension. In small business you expect to keep going more or less 'til you drop. Mind you, when one of us dies the other one couldn't run it on their own – it's a partnership, it's teamwork, so whoever was left would have to retire."

Don (import entrepreneur) warns of the 'culture shock' between the two worlds. "You've got to be self-reliant and you're the one who's got to take the decisions. When you work for a large concern there's always someone else either to take decisions or to back you up." **Don** advises: "Make sure you are the right type to go into self-employment so if you're presented with a business opportunity, the acid test will be if you take it. If you bottle out, then probably self-employment isn't for you. Lastly, I would say that whenever you start employing people – that's when the problems start!"

Harry (sole trader): "If you leave employment, what you've got to remember is you're probably in for longer hours – no sickness pay, unless you're insured – no holiday pay and just the bare state pension."

Emma (clothes retailer): "In business always expect the unexpected."

Reg (furniture maker): "Before I went into it, self-employment always appeared to be easy and the rewards greater. The reality turned out to be very different."

Nick and **Julie** (pet supplies) "We did find it a bit of a shock to the system when we found ourselves not only working together, but being based at home all day and being with each other 24 hours a day. For the previous 15 years since we've been married, **Nick** worked away from home quite a lot and my job in PR was pretty demanding so we didn't spend an awful lot of time together. I suppose if people have a rocky relationship, working together could be the last straw. We're lucky and actually like being together and working together."

Henry and **Dan** (independent coach and bus company) **Dan**: "When you work for somebody you get used to a regular wage packet but when you start a business you soon find yourself talking about and maybe dealing with hundreds of thousands – and it gets a bit scary especially when you've got a family to think about and a house to pay for. So that's the main reason why we've been rather cautious – although we've now got 4 vehicles in only two years of trading."

7.10 WORKING WITH OTHERS

With an unreliable and opinionated partner, **Reg** (furniture maker) found it was easy to get bogged down into a quagmire with rising debts making it difficult to come out of it cleanly so the temptation was to keep going and put more in (ie time, money and borrowing). It is important therefore to make sure that:

- If necessary you can get out cleanly on your terms.
- Need constantly to think laterally – looking for the next opportunity eg while **Reg** is now employed by Fords as a ‘picker’, he has tidied up his business by getting out of debt and is looking at making ‘for sale’ boards (capitalising on his previous woodworking skills), and servicing estate agents.
- Psychologically and financially it is important always to be ready and prepared to move on if necessary – eg **Mary** whose stabling and saddlery business either needs to be developed or closed – but she has become exhausted and is on a downward spiral, and is seemingly now unable to make cool, rational decisions. Having experienced both self-employment and (at least temporarily) a return to employment, **Reg** says: “Employment is ten times easier than self-employment. I would want at least twice as much money to return to self-employment!”

7.11 SMALL BUSINESS CULTURE

Small business often runs in families. Typically small business people talk about ‘independence’, ‘self-sufficiency’, ‘an attitude of mind’, the ‘do-it-yourself mentality’, ‘workaholism’ and ‘the difficulty of switching off’.

Harry (sole trader) admits to being exhausted at 65 years of age. He is careful/prudent with money, only buying what he can afford. He is financially well disciplined. He always makes a point of listening to others before taking decisions. Above all he regards being able to mix well, to be flexible and adaptable as the key to success in small business.

Reg (furniture maker now turned Ford employee): “As a former self-employed person I find it very hard to stop working – you have to work to make money – you cannot afford to cruise, whereas at Ford’s I see people just standing around waiting to be told what to do. Instinctively if I see a job needs doing – I just do it. As a self-employed person you work at a job ‘til it’s done – you cannot afford

to clock watch. There's no doubt in my mind that small business people work harder and for longer hours."

Phillipa (accountant), in her present 'lifestyle' business enjoys being able to take blocks of time off for travel: "There's no way I could do that if I was employed".

Les (Trainer and counsellor, formerly employed in the NHS) highlights the problem of getting and keeping motivated when you work on your own.

Ross (MD management buyout) sees the major advantages of small business as: flexibility, adaptability and quick decisions. This is well illustrated by **Ted** (local directories), who after 20 years in the personal insurance industry decided to move out when he found that it was becoming less profitable. After thinking carefully about, and researching his new business, he made a quick and smooth transition, capitalising on his existing selling skills: "I reckon if you can sell insurance – something that nobody wants but needs – you can sell anything. By the early nineties, local directories were still fairly new in Britain, so there was also the matter of getting in first as well as leaving a sinking ship – which is what personal insurance had become by then." **Ross** sees many small businesses failing because the personnel are artisans or buccaneers and not strategists or marketeers ie in his terms, basically they are not business people.

7.12 CONCLUSIONS

The essential points to come out of the views of the entrepreneurs regarding the nature of small business are as follows:

- The need for the would-be entrepreneur to have a realistic understanding of themselves – their strengths and weaknesses. (Are they really cut out for an entrepreneurial career?)
- The need to be self reliant, self-starting and capable of taking decisions.
- To be ever vigilant concerning money.
- To be good at handling and controlling money, specifically to have the 'appropriate' attitudes to it: to be good savers, investors rather than spenders, always to be sure to keep in the black and to be in full control.

Note: The downside regarding money is for the small business person to be somewhat parsimonious (not to say mean) with it. Many develop an obsessional attitude, seldom if ever indulging in ‘frivolous’ behaviour such as a spontaneous burst of retail therapy. If anything, some of them develop a deeply restrained approach to money and its use and some would say that they don’t get the full benefit from it for themselves.

- With regard to investment and the long-term provision for healthcare and old age, the majority of the entrepreneurs were profoundly suspicious of the conventional financial institutions such as the Stock Exchange and other investment media together with the banks and pension funds. Their preference was to invest in property, to save and for some, to invest in anything that offered the opportunity for a good long-term return such as Art, rare motor vehicles and other objects with a rarity value.
- A number of the respondents came from small business backgrounds and were thus sensitised to the potential ups and downs in small business and this certainly aided their developing a toolkit not only of business skills but a deep awareness and understanding of what can go wrong in business.
- One of the most interesting aspects about newcomers to small business, especially where they had been employed in the corporate world, was the culture shock that confronted them. Many seemed able to make the transition although others, especially from a public service background, found the transition difficult, if not, impossible.