THE GROWING BUSINESS HANDBOOK

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FOURTEENTH EDITION

THE GROWING BUSINESS HANDBOOK

Inspiration & advice from successful entrepreneurs & fast growing UK companies

Consultant editor: Adam Jolly

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FOREWORD

Growth rarely happens by accident; you need to make it happen. And never has this been more true than in the turbulent economic times of 2012. First, you need to spot the right opening. Then you have to develop a plan, create a compelling offer, take yourself to market, build a financial strategy, become more professional, and inspire and lead everyone you recruit.

It is almost always a high-wire act. You are stretching the limits of the possible, so you will constantly find yourself balancing the promise of top-end rewards against a whole series of challenges that could sink you. Few make it all the way through to the end of the growth cycle, and many enterprises plateau at a certain level by failing to make the transitions demanded by operating on a large scale.

So how can you build the capability to move sales up to £1m, £8m, £20m and beyond? And what are the characteristics that distinguish a dynamic enterprise that has the real potential to make £100m a year and take on the market leaders? How do you attract, lead and retain talent? How do you create a brand that captures the distinctive value that you can offer your customers? And how do you put in place systems and processes that keep everything on track?

Drawing on a wide range of professional expertise and commercial experience, this new edition of *The Growing Business Handbook* is full of practical advice and concrete suggestions about how to maximise the upsides and control the downsides, even in the tough trading conditions that many organisations – large and small - are currently experiencing. All told, there are over 40 experts who have written on the different challenges that entrepreneurs, innovators and directors and likely to face in growing and developing their business through 2012 and beyond. The IoD is grateful to all those who have shared their knowledge and experience so freely.

Simon Walker
Director General
Institute of Directors

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PART ONE
Planning for growth

Working together to grow your business

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Building a business model that lasts

1.1

Gillian Lees, Head of Corporate Governance at the Chartered Institute of Management Accountants (CIMA), reviews the challenges of growing a business that makes money in the long term

No one starts a business to fail and, fortunately, few purposely run a business to ruin. Founders, managers, board members and most other stakeholders usually want their companies to prosper indefinitely. But what are the challenges facing companies as they strive to create sustainable companies – especially the growing business, which may find that the strategies that served it so well come under pressure at a larger scale? Fortunately, there are simple, but powerful frameworks and insights that can help businesses address the right questions as they manage their growth journey.

At the heart of such questions is the need to build and sustain a resilient business model. Systematic thinking about the concept of the 'business model' appears to be a recent, but increasingly important aspect of strategy. It is now often described in annual reports and other corporate literature even though research has found that, as yet, there is no universally accepted definition.[1] For our purposes here, we will keep things simple and define it as the basis on which a company makes money.

In striving for growth, we will consider how companies need to:

- adopt a long-term perspective while managing short-term demands;
- understand the core components of their business model and where value lies in their organization;
- ensure that the business model remains 'fit for purpose' in the light of rapidly changing market developments.

We also draw on insights from a recent AICPA/CIMA survey of 280 CEOs from over 21 countries across the world, which looked at current global challenges and what they saw as the priorities in leading their way through them. The research also included further in-depth interviews with 17 CEOs, chairmen and other business leaders who between them are responsible for over 2.1 million jobs and market capitalization of $1trn. Their overwhelming response was that the human dimensions

of business, for example customer and supplier relationships and talent development, need to be the key focus for growth over the next 18–24 months as this is where most value in the company lies.

Success for the long term

Short-term thinking in business is often blamed for all manner of ills, particularly against a backdrop of global financial crisis and concerns about environmental challenges such as climate change. It is no wonder that companies and their shareholders are exhorted to think long term.

But what does this look like in practice? One of the surprising discoveries that we made in an earlier CIMA study was that, despite frequent reference to the long term, there is no agreed definition. We even came across an example of a 100-year business plan! Although specific industry characteristics have an effect on how companies see the future (for example, capital-intensive industries such as energy and steel are going to be very different from fast-moving consumer industries), companies need to define the long term for themselves.

An additional challenge is that adopting a long-term perspective does not negate the need to tend to the immediate needs of the company. After all, 'cash is king'.

For the larger listed companies, however, the most visible source of short-term pressure is the need to please the stock market. Indeed, our research showed that a majority strongly agreed that investor focus on short-term rewards makes it difficult to plan for the long term with a ratio of 6:1.

But other pressures are often more subtle and needlessly interfere with long-term goals. These are two pitfalls for growing companies to avoid:

- Performance targets for business units and individuals can support behaviours that counteract long-term success. For example, management bonuses may be tied too closely to achieving quarterly or annual sales targets at the expense of sustained customer relationships, as illustrated in a CIMA-sponsored case study of a major car dealership in the Netherlands. Here, it was discovered that most profit was generated from loyal customers who both bought a car and maintained a long-term relationship through servicing and other services rather than from incidental customers who bought a car and were never seen again. However, targets were based on new car sales. This needed to be shifted through redefining performance and creating new indicators and targets.
- Following the herd in terms of strategy. Doing what everybody else does may seem tempting – especially when the immediate rewards are promising – but may hinder the company's ability to build competitive advantage.

Once a company has clarified its own definition of long term and articulated its goals, it needs to ensure that its short-term actions are aligned with these goals on a dynamic basis.

A useful starting point is to distinguish between a long-term perspective and a long-term planning horizon. The perspective provides a vision of how the company imagines the world, ideally 20, 50, even 100 years into the future. It provides a

guiding star that directs the company, offers a sense of purpose and helps with evaluating today's decisions. The planning horizon must be more practical. It should offer targets that are far enough into the future that creativity isn't stifled because of time limitations, yet near enough to the present that changes need to begin immediately for the targets to be reached. For many companies, a 5–10-year horizon enables short-term action plans to be aligned effectively. As the example of the Dutch car dealership showed, a clear picture of where value lies is necessary to devise the right performance indicators and targets. This is where understanding of the business model is so important.

Focus on the business model

In addressing the basic question: 'How do we make money?', growing companies must focus on five critical, but interrelated areas as follows:

- Cost leadership – this requires non-stop efforts to increase efficiency and reduce the cost of resources used by the business. Lowering costs allows organizations to generate higher margins at prices that are more competitive and can free up valuable funds for innovation. Furthermore, with increasing pressures on natural resources such as energy, cost leadership is a good habit to get into. It is no surprise that our CEO survey revealed that reducing costs would be the single most important action being taken to achieve growth in their businesses over the next 18–24 months.
- Durable supply chain – for a business to succeed in the long term, it needs to secure the supply of resources used to produce its goods or services. A durable supply chain is an inescapable component of a successful business model but needs to be balanced against the need to achieve cost leadership; for example, excessive pressure on suppliers to offer low prices could impact on their ability to pay fair wages, so having a longer-term adverse effect on supply-chain durability.
- A motivated and skilled workforce – for our CEO respondents, upgrading and strengthening talent represented the most important cluster of actions for growth alongside improving the financial position.
- Attracting and retaining customers – no business can survive without customers, but growing companies need to understand the power of new technology to create new relationships, for example the use of social networking technologies to gain new insights, as well as the increasing role of the customer in contributing to product development and innovation. Growing companies need to consider how these issues impact both on how they deliver the product to the customer and on what they actually sell.
- Ability to innovate – this underpins the other four key areas of focus, but the rapidly increasing speed of technological change means that innovation demands constant, dedicated attention if the business model is not to be rendered obsolete.

These areas of focus are consistent with the factors that CEOs told us represent the major sources of value in their businesses. Sixty-eight per cent cited non-financial factors as being the crucial value drivers, as follows:

- customer relationships;
- knowledge and human capital;
- technology;
- strategic vision;
- intellectual property;
- supplier relationships;
- processes.

A current challenge lies in being able to measure and manage this value more effectively to help companies make better decisions about how and where to invest resources and effort. Nearly two-thirds of our respondents agreed that they needed to do this better. But even without the benefit of better management information, a striking and common theme running through the in-depth interviews was that attention to these non-financial dimensions is key to growth and future success.

Responding to change

Growing companies need to ensure that their business model remains fit for purpose. It's helpful to do this systematically, for example by basing questions on the CIMA Strategic Scorecard® framework. This was originally developed to help company boards oversee strategy more effectively, but its basic four-point framework can also highlight the areas that companies must address in order to maintain a sustainable business model as follows:

- External environment – analysing key changes, for example, competition, technology.
- Strategic risks and opportunities – what are the implications of these changes for the way we make money?
- Strategic options – how can we translate these risks and opportunities into a range of options? One study suggests that companies need to consider what additional competencies they should develop and try 'strategic experiments' to test new possible business models.[2]
- Strategic implementation – selecting and implementing the option(s).

Concluding remarks

To achieve long-term sustainable success, the growing business must have a firm handle on its business model with a clear understanding of where value resides in the

company. Our research shows that it is the 'human dimension' of the business – for example, customer and supplier relationships, talent and intellectual capital – where companies need to focus their efforts.

Further information

AICPA/CIMA (2012) *Rebooting Business: Valuing the human dimension*, www.cgma.org
CIMA (2011) *Building World-class Businesses for the Long Term: Challenges and opportunities*, www.cimaglobal.com

Notes

1 The business models investors prefer, *MIT Sloan Management Review*, **52** (4), Summer 2011
2 The business models investors prefer, 2011

Gillian Lees is Head of Corporate Governance at the Chartered Institute of Management Accountants, the world's leading and largest professional body of management accountants, with 195,000 members and students operating in 176 countries, working at the heart of business. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure that it remains the employers' choice when recruiting financially trained business leaders. Telephone: 020 8849 2285; e-mail: Gillian.lees@cimaglobal.com; Twitter: @CIMAGillian; website: www.cimaglobal.com

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Go global to grow

1.2

Are you focusing on expanding internationally? If not, you may be missing the best opportunity for growth in the current economic climate. So start thinking like a global entrepreneur, says Dr Bruce Johnstone, the Business Growth Programme (BGP), Cranfield School of Management

The big growth opportunity for many UK firms lies in finding an entry into the emerging economies and providing their consumers with the more sophisticated goods and services that they will increasingly demand. International expansion is an attractive growth strategy because it allows companies to grow their business rapidly while continuing to concentrate on what they do best instead of trying to do something they know very little about. It can often make more sense to expand globally than to attempt to diversify in the local market and risk a loss of focus.

Business owners face a series of strategic choices as they consider global expansion. They must decide which markets to enter, and what mode of entry to employ in each of them. Will they deal directly with end users of their products and services? Or will they involve agents, distributors, partners or other intermediaries in foreign markets?

Go online

Small and medium-sized enterprises (SMEs) can use international distribution and fulfilment services to supply end users of their products directly, almost anywhere in the world. International customers can buy their offerings online or through an intermediary such as eBay or a television shopping network. A global SME might source goods from China using online services such as Alibaba.com, then sell them through its own website and on eBay and then have the fulfilment managed by Amazon. The owners of successful automated global SMEs are making money while they sleep.

The key to making this sort of business model sustainable is to add something special along the way that customers will value, such as design flair or technical expertise. An example of this is a small jewellery designer in Derby that buys beads from China, and assembles them into attractive and unique jewellery to sell online.

Make and export

Any business that enjoys a product or service niche in its home market should investigate ways to exploit that niche globally. It could provide the opportunity to boost production and make much more profit from existing investment in factories, equipment and knowledge. For example, 30 moulding machines at Numatic International in Somerset work 24/7 to supply British-made vacuum cleaners to a global market. While exporting locally manufactured goods creates employment in Britain and brings a better return on investments in factory buildings and manufacturing expertise, the challenges of exporting British-made goods include high transport costs, trade barriers and dealing with local agents.

Set up a subsidiary

Establishing a wholly owned subsidiary in a foreign market enables a business to get close to its offshore markets, cut transport costs and engage in global strategic coordination. By retaining full control, technology and knowledge can be protected. The disadvantage of this approach is that it usually represents a large and risky investment in a foreign market.

Find a partner

Licensing and franchising enable firms to expand globally without the development costs and risks of expanding manufacturing. A joint venture provides an opportunity to share development costs and risks with a local partner. It can overcome political and economic barriers to market entry and in markets such as China is often the only option for a foreign firm.

The disadvantages of partnership approaches can include a loss of control over quality and the ability to coordinate manufacturing globally. The possible downside of shifting production offshore is the loss of ability to exploit economies of location and experience.

Turnkey projects

Firms with innovative technology are in demand in developing markets and should consider exporting their know-how in the form of a turnkey project. This is often an opportunity to enter markets where foreign direct investment is restricted. The downside of this approach is that there may be no long-term presence in that market, and the firm may have created an efficient international competitor.

Rebuild your business as a global firm

Of course, deciding on a sound strategy for entering your first international markets is only the start. Global entrepreneurs have to wrestle with international finance, accounting, HR and marketing. They must contend with the more complex cultural, political and economic issues that will affect their global business. You and your team need to start thinking and acting like global entrepreneurs.

To rebuild a local UK business into a global firm, just about every aspect of the firm will need to be re-examined. As the firm makes the transition from local trading to global entrepreneurship, the owner needs to follow a step-by-step process that goes back to basics and looks at each component of the business in turn.

Eric Flamholtz (Flamholtz and Aksehirli, 2000) puts forward a good step-by-step model for understanding the different elements that need to come together in a successful business. He suggests that firms that succeed in the long term have progressed successfully through six key steps:

- identification and definition of a viable market niche;
- development of products or services for the chosen market niche;
- acquisition and development of resources required to operate the firm;
- development of day-to-day operational systems;
- development of the management systems necessary for the long-term functioning of the organization;
- development of the organizational culture that management feels necessary to guide the firm.

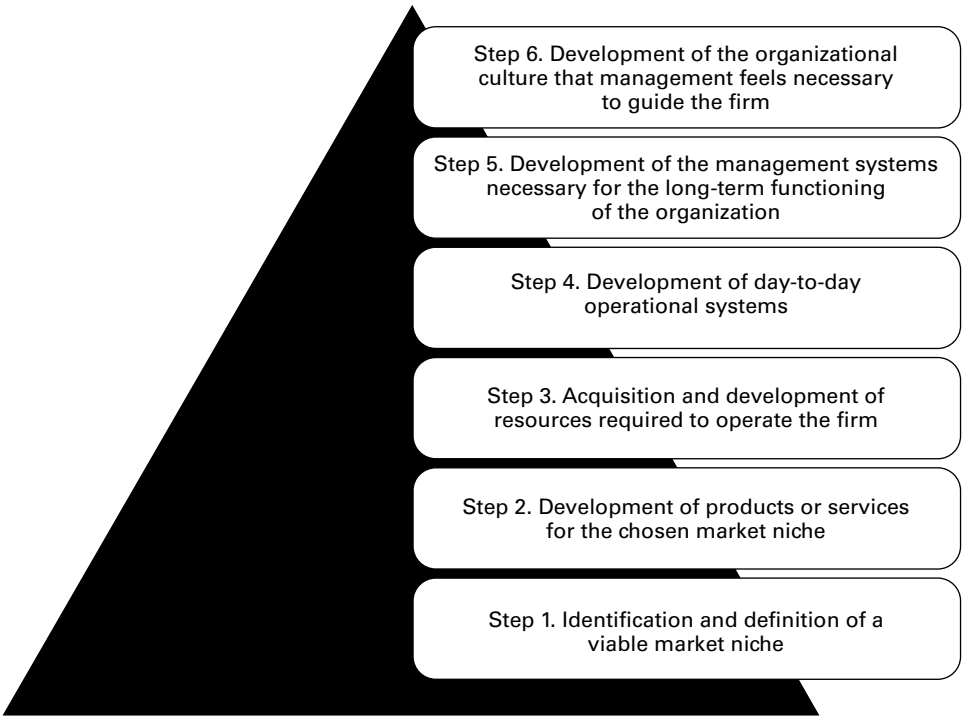
First understand the market

These steps form Flamholtz's Pyramid of Organizational Development (see Figure 1.2.1), which is built on the foundation of a clearly defined market. Your first task in going global is to establish if there is a viable niche to exploit in your proposed new market. Many new exporters struggle with this first step and make the mistake of assuming that foreign markets are similar to their familiar domestic markets. In reality the market niche is likely to be more different than you expect, and be different in ways that you did not anticipate.

For example, UK firms entering the United States often fail to appreciate that each state has its own distinct political, legal, regulatory, economic, cultural and social environment. Industry systems and business practices are well established and can be difficult to break into. Compliance requirements can be very complex and vary between different states, and even between neighbouring counties.

An excellent approach is to meet and talk with some of the sorts of people who you hope will be the end users of your product or service in the target market. Ask them where they would expect to buy a product such as yours. You should uncover insights into how the local supply chain works in your industry, and who are the preferred suppliers.

FIGURE 1.2.1 Six steps for success (adapted from Flamholtz's Pyramid of Organizational Development)



Does your product or service fit the niche?

Once the market opportunity is understood, the product or service needs to be reviewed to make sure it is a perfect fit. If you are fortunate, your product might need little or no modification, but it is more likely that your export product or service will need to incorporate changes of some kind.

Labelling and packaging is an example. Not only must it comply with every local regulation, but you also need to accommodate local language and culture. Even within the English-speaking world there are important differences in spelling, grammar, punctuation, word usage and the formatting of dates, for example.

You need to investigate if your UK brand name is available in the target market. If so, does your brand name have any unfortunate meanings locally? Many firms find that they need to create new branding to enter international markets.

Putting the resources in place

Once markets are established and products and services are adapted, the firm must then focus its attention on the next higher step of the pyramid, which is resource management. Financial, technological and human resources must be up to the task. The UK resources you used to run a local business are likely to be found wanting when you go global.

Your resources also need sound operational systems to run them. Consider thoroughly overhauling your systems for operating finance, technology and people to make sure they are adequate for an international firm. It helps that many of the professional firms and suppliers you will deal with are also global enterprises themselves. Ideally your bankers, accountants and lawyers will have international expertise and operate offices with local experts in your target market.

Becoming an exporter may provide you with access to new forms of finance for your growing business. For example, Letters of Credit can be an excellent financing mechanism for international transactions, by providing both you and your bank with a guarantee of payment. This can actually make manufacturing for export easier to finance than manufacturing to supply local customers.

Developing international management

Management systems sit above operational systems on Flamholtz's pyramid. This is the step where planning, organization, management development and performance management take place. Once you are assured that your emerging global organization has a strong base, a sound market, products or services and resources, it becomes important to focus on management. You are likely to face the challenge of developing a management team that can operate successfully in your target market. This might mean finding local managers and integrating them into your organization, or it might mean integrating members of your management team into the target country, or a combination of the two approaches.

Building a global corporate culture

Finally at the top of the pyramid is corporate culture, where the values, belief and norms of the organization reside. It is important for these to develop as an organization becomes international.

As an organization grows globally it becomes multinational and multi-local – acting like a local in each of its markets, but held together as an organization by an overarching global culture. Leadership and governance of the organization need to be up to the task of sustaining global entrepreneurship.

If this short article has started you thinking about taking your UK-based business to the world, please visit the UK Trade & Investment (UKTI) website to begin your journey of going global to grow.

Reference

Flamholtz, E G and Aksehirli, Z (2000) Organizational success and failure: an empirical test of a holistic model, *European Management Journal*, **18** (5), pp 488–98, doi:10.1016/S0263-2373(00)00038-4

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SME finance

1.3

Angela Knight, Chief Executive of the British Bankers' Association (BBA), discusses how SMEs can access the right finance

Banks are open for business and there to lend. But banks aren't always the right finance. When a company goes in search of support, it might be time to call on an equity financer or a business angel. The BBA and its members are committed to improving their understanding of SMEs – what makes them tick and tick over, develop, grow and succeed. We're also fully invested in sharing and showing SMEs the wide range of financing options that are out there and exploring mutual opportunities to help companies grow. Knowing where everyone sits on the finance supply chain – what they offer and on what terms – will make it easier for customers to see where they fit into the national business model. And many of us agree that that model is central to rebuilding our economy.

In March 2012, independent surveyors BDRC Continental released the third report from the SME Finance Monitor. The SME Finance Monitor was commissioned by the banks as an authoritative study of the small and medium business sector: every quarter, 5,000 companies are contacted and posed a series of questions investigating their use or intended use of finance, be it from a bank or another source. Not only are they asked about the brass tacks of their funding arrangements – are they currently using finance, have past funding applications been successful or do they plan to seek financial assistance in the next three months, for instance – but also about the thinking behind their decision to use or not to use external funding to support and develop their business.

The SME Finance Monitor further investigates the factors that impact a firm's access to finance, factors that feature both within and without the business. It also gets to the nitty gritty of company structure: does the firm have a business plan? Do they keep regular and accurate accounts? The sort of questions that get to the sort of answers that might signal that a business is likely to succeed or likely to struggle, given the economic challenges of today.

The findings of the March 2012 report from BDRC Continental were along very similar lines to those of the two previous surveys. The overwhelming number of small and medium-sized businesses looking for credit was successful in raising finance from their banks. Last year, 79 per cent of businesses seeking credit came away with a credit facility.

The figures showed that confidence in the economy was a major consideration for businesses possibly seeking finance. In the last 12 months, only 7 per cent of SMEs applied for new of renewed overdraft facilities and just 3 per cent asked for a loan. These figures for Q4 2011 are down from 13 per cent and 5 per cent respectively as compared to the first survey, conducted in Q1/2 2011.

Though demand continued to fall, banks continue to have funds available to lend to businesses with a viable plan, a good track record and an existing relationship with their bank. The research showed that there is likely to be even less willingness to borrow in the next few months: uncertainty about the economic climate is putting increasing numbers of business off applying. Around two-thirds of businesses said they would not want credit in the next three months and about 52 per cent of businesses cited the wider economy as a barrier.

But to those viable businesses that are bravely seeking funding in these tough times: what sorts of funding are available to them? Today, it is not only a question of a business demonstrating innovation in its products and services, but also of showing ingenuity and resourcefulness in the sorts of finance they pursue. We the banks are here to support them.

Last month, I was privileged to attend an event at 10 Downing Street which acknowledged the premier importance of business angels. Not only do angel investors bring vital finance and investment to businesses, they also offer that all-important guidance and mentoring to companies as they develop and grow. I was delighted to recognize the contributions that angels make to British business.

There are approximately 15,000 angels in Britain, investing nearly £1 billion every year. As such, angels figure as the most important source of capital for start-ups and early-stage businesses, and 2012 is going to be an exciting year for angel investment. The landscape of UK policy is shifting to encourage and incentivize angels, as well as the various co-investment opportunities that partner public and private financial support.

We felt at first hand the positive impact that angel investment has had last year when we rolled out the Better Business Finance (BBF) campaign. Regional outreach events were a central feature of the BBF programme: the BBA and its members took to the road to improve bank relationships with business, ensure access to finance and pave routes to alternatives sources of funding.

It is critical that a business at every stage of its development secures the right finance from the right partners for its specific needs. Listening to the dialogues between those who provide finance and those businesses that seek it in towns and cities across the country, it was clear how important the angel community is to the UK's start-up and growing companies. It was also clear that forming strong collaborations between the banks and those alternative business finance sources is an essential part of getting the economy going.

Another legacy of the Bank's and BBA Business Finance Taskforce commitments, complementing the BBF initiative, is the Business Growth Fund (BGF). The Fund was established as an independent company and is sourced by five of the UK's major banks. It delivers equity finance to companies with turnovers of between £5 million and £100 million. The aim is to fill something of the gap between debt and equity in small and medium-sized business finance, rebalancing the funding burden on developing companies.

A connected financial environment supporting small business growth is essential. As the first BGF investments have been awarded, now is the time to work out how and where finance options can be interconnected and providers such as the BGF and angels can work together as a collective to benefit UK business. That isn't only in terms of stumping up the finance. We have to make sure that they are 'finance ready',

with good propositions and detailed plans: more than anything else, this will encourage investor confidence.

I mentioned the BBF campaign and the massive success of its 2011 regional roadshows. Over 2,000 businesses attended 13 events held up, down and across the country. I was at each event to hear about and to learn from the challenges they face, many of which were familiar to me as a former self-employed businesswoman.

Sources of further information on SME funding

1. SME Finance Monitor: http://www.bdrc-continental.com/business-sectors/financial-and-business/sme-finance-monitor/
2. BBF: www.betterbusinessfinance.co.uk
3. BGF: www.businessgrowthfund.co.uk
4. mentorsme: www.mentorsme.co.uk
5. Finding Finance tool: to be launched at end of March 2012.

These face-to-face encounters have been bolstered from the word go by a number of websites designed specifically for SMEs and for start-up companies. And these virtual mentors – sites that are there, brimming with all sorts of information whenever a business needs it – have been matched by a real network of committed and experienced business mentors. There are now 15,000 mentors available via the mentorsme.co.uk site. Since launching last summer, over 500 existing and recently retired bank employees have been recruited and trained as mentors and partnered with established not-for-profit mentoring organizations, and several hundred businesses have been mentored.

This year, BBF will continue to support SMEs. The campaign intends to repeat the proven 2011 formula for success.

We have listened to government advice on what needs to be done to encourage business growth, and on where and when to do it. Further outreach events are planned, which will this year include MPs holding constituency surgeries on mentoring and access to finance roundtables with business groups and continuing to support UK export finance and UK trade and industry. That cooperation between banks, business and politicians is crucial.

And a new online Finding Finance tool will be launched, helping businesses track down the right funding for them in their area. I am happy to say that the website is the product of collaboration between the British Business Angels Association, the British Chambers of Commerce and the Department for Business, Innovation and Skills, as well as a host of other organizations committed to the cause of SMEs.

The year 2012 is the year of the London Olympics: a real cause for national pride. The UK's small and medium-sized businesses are another such cause. The banks are

ready to train and support them; to broaden the shoulders of those businesses with the potential or proven strength to succeed.

Angela Knight is chief executive of the British Bankers' Association. The BBA is the leading trade association for the UK banking and financial services sector. We speak for over 200 member banks from 60 countries on the full range of UK and international banking issues. Further details: www.bba.org.uk

The world's biggest business opportunity

1.4

Chris Jaques, CEO of M&C Saatchi Asia, on how to profit from the emerging middle class in China and India

Global spending by the world's middle class will more than double in the next 20 years, from $21 trillion today to a breathtaking $56 trillion by 2030, according to the Organisation for Economic Co-operation and Development (OECD). An incredible 80 per cent of this extraordinary increase – more than $35 trillion in additional consumer spending – will come from the emerging middle classes of Asia.

What's more – this growth will be dominated by only two countries. Today, China and India account for less than 6 per cent of global middle-class expenditure, combined. Yet within 20 years, they will account for an incredible 41 per cent.

The Chinese middle class will be bigger than that of the United States by 2020, and will exceed the EU by 2026. India's middle class will grow even faster, exceeding the United States by 2021, China by 2023 – and soon overtaking the EU, to become the world's largest by 2026.

The rise of the middle class in China and India will represent, quite simply, the most profound business opportunity in our lifetimes. It will also represent one of its biggest challenges.

One beast, two bodies

China and India have been the world's two largest economies for 18 out of the last 20 centuries. Historically, the brief era of Western domination is a short punctuation in the continued dominance of these two ancient nations.

But while China and India may be connected by history, geography and opportunity, they are much more profoundly divided.

Whereas China began its process of economic liberalization in 1978, India didn't open up until 1991. Even after that date, the Chinese political system has led dramatic national development in ways that the cumbersome democracy of India simply couldn't match.

China's infrastructure is way ahead. Her road, rail and air transport systems are rapidly developing into some of the world's most modern, whereas India's remains one of the world's worst. The port in Shanghai can turn around a ship in eight hours, for example, whereas it could take three days in Mumbai.

Socially, the differences are just as dramatic. In India, 42 per cent of the population still lives in poverty, versus only 3 per cent in China. India still suffers from illiteracy rates of around 40 per cent, versus only 10 per cent in China.

Two bodies, a million legs

If there are dramatic differences between the two nations, there are even greater differences within them.

India has at least 2,000 ethnic groups and over 400 languages. China has 56 official ethnic groups who communicate in more than 240 languages.

The majority of China's middle class is spread across the country's 150 cities that have a population of over 1 million. The distances and differences between those cities are dramatic. Most don't speak the same dialect, eat the same food or dress for the same climate. But these challenges pale into insignificance when compared to the challenge of India.

India is so rural and fragmented that if you want to target 60 per cent of India's urban population, you would need a distribution and logistics capability that could reach no fewer than 3,500 towns and cities.

Business, therefore, needs to stop thinking of China and India as countries – and start thinking of them as continents. Each is a new Europe: huge and fragmented, a combination of distinct, different entities.

From our experience working with many of the region's most successful brands – from major Asian brands like Lenovo, to some of the West's most successful brands in Asia, like VW – we believe that there are many principles which are fundamental for success. But I will focus on just two.

Rule number one: focus on the future, not the present

The demographic, geographic and cultural changes that we can forecast over the next 10 years will shape how and where the middle class opportunity will develop in each country.

Demography will create bigger opportunities than are currently obvious. India has one of the youngest populations on earth, and China has one of the oldest. This will lead to profound generational differences between today's middle class and tomorrow's.

Psychology: These new generations are thinking differently. In China, for example, consumers born after 1980 are profoundly different from the

generations before. They are more global, more financially secure, more individualistic, yet equally patriotic and proud of China's transformation. And because they were children in one-child households, they are allowed to have two children themselves.

This is an entirely new generation of middle-class consumer, an entirely unique consumer mentality and marketing opportunity. The first of them will reach the age of 32 years this year, and by 2015 they will account for more than 50 per cent of China's entire population.

Geography is providing entirely new regional opportunities, as a result of dramatic urbanization. Around 50 per cent of China's population now lives in cities, but only around 29 per cent of India's. We have forecasted urban growth rates over the next 20 years, and the findings prove that there are exciting new geographic opportunities for most business sectors throughout both countries.

Future focus: The future will offer a different market, populated in different geographies, by different consumers. And it will be worth $35 trillion more than the market of today. The opportunity for new marketers, new products and new services has never been bigger.

While this opportunity is enormous, however, the businesses that will be most successful will not be 'thinking big' at all.

Rule number two: think small to get big

It would be naïve to attempt to try to develop a Chindia strategy. It is equally naïve to try to create a common China strategy or one overall India strategy. These markets are too big, too complex and too fragmented.

Yet, if you 'think small', it's much easier for any business – regardless of size – to achieve success. Thinking small enables companies to become much more competitive, in all areas of their business.

Micro-marketing: Whether you follow McKinsey's 'Cluster' strategy or Accenture's 'Matrix of Microsegments', both of them are clear that it's critical for every company to target smaller geographies in order to conquer the biggest opportunities. Geographic focus enables businesses to build brand dominance and create cost efficiency. By focusing a China strategy on specific regions – like the Shanghai/Nanjing/Hangzhou region, for example, or the Szechuan/Chongqing cluster – businesses can develop a targeted offering which exploits common consumer needs and minimizes operational costs, while still providing a scale of business opportunity that is larger than most countries.

Micro-distribution: Supply chain management is a major challenge for every company in both China and India. Logistics costs in China are three times more expensive than in the West. And whereas 80 per cent of the retail sector is organized in most Western markets, it's only 20 per cent in China and 4 per cent in India. Once you do get distribution, gaining impact at point of

purchase is an equal challenge. The informal retail sector follows its own rules, and the typical supermarket in China already stocks more products than its competitors in Europe. The challenges of logistics and distribution are insurmountable for most businesses on a national basis – yet a geographic focus can help provide the clarity that leads to more effective – and cost-effective – management.

Micro-messaging: China is the world's most developed market in terms of internet usage, social media involvement and mobile marketing. There are almost one billion mobile phone users, over 500 million internet users and 250 million microblog users. They spend more time online than their Western equivalents, and they are more active when they are online. Eighty-four per cent are active on social networks and microblogs in China, for example, versus only 64 per cent in the UK and 60 per cent in the United States.

A quarter of these users say that they won't purchase a product offline without researching it online. Fifty-six per cent say they regard online advertising as more credible than TV advertising. And, in a fundamentally communitarian culture, word of mouth and 'recommendations by friends and family' are the biggest influences on brand purchase.

While India is way behind China in this respect, with only around 100 million internet users, it is already the world's second-largest Facebook market, and 11 per cent of internet users shop online.

In both countries, digital and mobile communications are becoming fundamental tools for the emerging middle class. And they are truly mass-market media, offering smart marketers new and cost-effective opportunities for micro-targeting and micro-messaging.

The diamonds are in the details

It's very easy for anyone to get seduced by the potential of Chindia's massive middle class. But Chindia is too big to treat as one opportunity – and each country is too big to treat as one market.

Many of today's main markets are intensely competitive. But today's market is miniscule compared to the scale of the opportunity that is emerging. Smart businesses will focus on the future opportunities more than the current ones. And they will focus on smaller regions, clear consumer segments, specific retail strategies and targeted communications channels. Because, however big the opportunities may be, the diamonds lie in the details.

As Sun Tzu said: 'Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat.'

Chris Jaques is one of Asia's most experienced business leaders. He has been CEO of North America and Asia Pacific for Young & Rubicam; President of Europe for Ammirati Puris Lintas; Chairman of Asia Pacific for BBDO; and CEO of Asia for Bates Worldwide. Currently CEO of M&C Saatchi Asia, Chris is a passionate believer in the power of simplicity during an age of increasing complexity, and is evangelical about its fundamental importance in the success of all businesses, regardless of geography, sector or scale. Further details: e-mail: chrisj@mcsaatchi.com.hk; website: www.mcsaatchi.com or twitter.com/HEREcomesNOW

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Growth by design

1.5

Former chief executive of Jaguar and BAA, and now Chancellor at Coventry, one of the UK's most enterprising universities, Sir John Egan comments on the gains that can be made in bringing performance up to world class

The automotive industry is seeing an extraordinary revival in the UK. Jaguar, Land Rover, BMW, Honda, Nissan and Toyota are all performing well internationally. Up-and-coming volume manufacturers like Tata and Shanghai Automotive are investing in the UK as a base for design and production. Alongside such marque names, the UK's supply base has re-engineered itself and is attracting business back from centres of low-cost production.

What is driving the UK's comeback as a motoring power? A currency that can adapt to commercial circumstances and a workforce that accepts the need for flexibility certainly help. But the real change has come from how the industry as a whole has upgraded its design practices in a continuous search for better performance. When you are up against the best in the world, you have to strive constantly for the best quality at the lowest cost in everything you do.

At the start of Jaguar's turnaround 30 years ago, it was hard to find any suppliers who were capable of cooperating to create world-class components in the UK. Now when you build a new model, you can pull design teams together to improve every aspect of performance. Instead of haggling over the price of a component, you work as a team to design in high quality and low cost from the beginning. You all carry on working on its design on computer until you are better than your competitors.

By reviewing and testing each part in this way, cars are becoming stronger, lighter, more fuel efficient and better at satisfying the customer. The design principles in each model are then built into the process controls that will drive the next set of innovations, so improving all components from model to model.

It is not just about clever engineering. To justify the premium for a luxury car like a Jaguar, you have to create an air of magic. The image, marketing and support all have to be right with a dealer chain that goes the extra mile. The more value you create for a customer, the stronger the brand becomes and the better you will do.

This formula for creating high quality at low cost is one that could translate to other industries. In construction, major customers like Tesco, Whitbread and Severn Trent have been pushing for a more collaborative approach in the early stages of planning and designing projects.

So far, the response from contractors has been limited. Although safety is dramatically better, only modest improvements have been made in productivity and cost performance. By and large, aspirations within the industry remain relatively low:

make a profit on a project, then move on. Rather than carrying forward gains in productivity from project to project, work tends to start from scratch each time.

But the same principle of working in collaborative design teams to create high-performance cars could underlie the construction of more world-class buildings, particularly in response to a challenge of making them as free of carbon as possible. Every building should be more cost and carbon effective than its predecessor.

It is around such opportunities that growth is going to happen. In the UK, we want to make sure that we seize as full a share of these new markets as possible.

At Coventry University, we are reconfiguring the university around the six major challenges that are going to drive the economy forward in the next few years. As well as low-carbon buildings, we are focusing on:

- low-carbon vehicles;
- digital media;
- sustainable food and agriculture;
- the ageing community;
- integrated transport and logistics.

If we are going to make our way in a globally competitive world, it makes sense to draw on the intellectual firepower that lies within universities. To engage with local companies, we are sending out advisers to talk about how we can contribute to their plans for improving their skills and upgrading their technology through joint research.

For students, our aim is to give them a set of commercial skills, as well as a technical knowledge of their subject. Many of them now include enterprise within their studies and all are encouraged to think about the possibility of starting their own business.

With help from the Institute of Directors, we have put together a scheme for mentoring anyone who starts a new venture and we have launched a fund for putting £3,000 to £30,000 into those looking to turn an idea into business either while they are still at the university or after they have left.

We know from experience that future growth in the economy will mainly come from innovative smaller enterprises. Our argument is that a university is the best place to start any new thinking, whether you are about to graduate or whether you are already running your own business.

Sir John Egan was chief executive of Jaguar (1980–90) and BAA (1990–99). He has subsequently chaired a number of major companies, including Severn Trent, Inchcape and MEPC. He also led the Construction Task Force to investigate the scope for improving quality and efficiency in the industry. Sir John has been Chancellor of Coventry University since 2008. In 2011, the university was judged by *The Times Higher Educational Supplement* to be Britain's most entrepreneurial. Further details: www.coventry.ac.uk

PART TWO
Ideas and innovation

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Whole company innovation

2.1

Innovation is becoming a group sport, says Garrick Jones, a research fellow at the London School of Economics and a partner at the Ludic Group

The collective knowledge in any commercial organization contains a wealth of contextual information – a vital source of ideas for innovation. Nobody knows more about the market, customers, issues, trends and opportunities than those who are working with these realities on a daily basis. The question is how best to get at that knowledge in a way that takes maximum advantage of it and leads to real innovation in products and services.

We call this approach the whole company approach to innovation. It is a multi-layered, yet simple, combination of people management, design events, product R&D and lean continuous improvement principles, which leads to rich, innovative outcomes. Through careful sequencing of multidisciplinary events throughout the design process, new products and services are informed by the knowledge of those closest to the market. A model for this could be continuous cycles of learning, creating and communicating.

The nature of work is rapidly changing. Most innovation and production is project led, powered by workshops that disappear after their goals are achieved. This is becoming as true for aircraft production as it is for the development of new customer-experience-based products in the service industry.

The rise of the internet has also led to new conditions for work: on the one hand, increased customer intimacy and knowledge, and, on the other, the loss of proximity between working teams. Teams may be working on components of a solution across geographic and time boundaries. The time that teams are able to spend together has become increasingly precious. How can the most be made of those interactions?

One response to tapping into the contextual knowledge resources of the workforce is design workshops and lab events. No longer is innovation the domain of the specialist removed from the real world, cooking up new ideas in a distant lab. Innovation is the product of many stakeholders collaborating to create unique solutions to existing problems, or creating new markets and new types of customer experience.

For reasons to do with the growth of the knowledge economy, innovation and competitiveness (Dougherty, 2006), organizations require new skills and are under pressure to be 'porous', using networks, strategic alliances and partnerships to achieve their aims (Kanter, 1999).

Today, as the economic and competitive pressures on organizations to grow are increasing, it is the means and the design process by which organizations innovate

that make the difference. The trend is clear – companies that are shifting towards open, collaborative and multidisciplinary practices have the advantage.

The design and innovation value advantage is clear to see in companies such as Apple Inc, which has a market capitalization 20 times the book value of the company. The same is becoming true for Samsung and LG, or the Scottish firm Linn which has focused on design and innovation as its key differentiators. All of these companies are defining the game as much as competing in it.

It is not only this commitment that creates value; it is also their commitment to design and innovation as a whole company exercise that enables these outcomes.

Innovation is a group sport

There can be no doubt that bringing new products and services successfully to market requires the broad cooperation of many very different teams beyond just the ideas merchants. Marketers, product and service designers, programme managers, IP lawyers, distributors, advertisers, supply chain managers, producers and packagers all have to be factored in. In the most successful cases, teams are working in parallel, kicking off processes which are vital to successful implementation long before the finished product has been decided. Boeing created the 777 and had it certified on both sides of the Atlantic simultaneously. It is no longer cost-effective to allow isolated design phases and research to hand over an idea in search of a market. Today, ideas are developed and refined in conjunction with multiple stakeholders – customers, retailers, users, salespeople. Trust and flexibility are vital. Successful organizations create cultures of trust and enable flexible networks that promote mutual understanding, rapid learning and the ability to change course midstream. Competitive advantage can be described as the ability to learn, innovate or continuously reposition with respect to the competition.

Complex programme management requires many threads to operate in parallel. Alignment between these parallel processes is enabled by interaction and communication. Successful organizations, whether formally constructed or networks of affiliated companies, need to work hard at enabling both the relationships and the communication required. The best managers actively design opportunities to do so. As we move to a networked economy, the concept of the linear supply chain has transformed into that of the non-linear value web. Successful organizations are able to identify the members of their value web and create opportunities where all these resources are working in harmony and focused on a single goal – getting the products or services to market on time, on budget and desirable to the consumer.

IBM, Sony and Toshiba are working together on new IT products; Sony and Ericsson have had to work together to stay in the market, and have been innovative as a result. The micro-projector (soon to be found in every mobile phone) is a joint production by multiple specialist technology companies. However, open innovation practices are not limited to extending the traditional boundaries of the organization into its value web. Today, everybody within the organization who has a stake in the outcome of a project has a voice. This requires a different way of organizing projects, and very large-scale events or design labs are where the work is being done.

Collaboration, both formally and informally arranged, has significantly increased within organizations as a tool for strategic development, innovation, corporate education and problem-solving purposes (Wohlstetter *et al*, 2005). Action research, activity-based systems and participatory media development are being employed alongside collaborative practices as organizational processes for enabling active employee engagement (Meredith, 2006). We call such approaches collaborative authored outcomes (Jones *et al*, 2004).

Spaces for innovation

Physical and virtual environments are evolving to support these new requirements for knowledge-led innovation.

Collaborative learning environments (CLEs) are fully flexible workspaces equipped so that groups of different sizes may actively engage in learning-based decision-support processes. As group-based tools and techniques grow in sophistication, so too do the demands made on the environments in which innovation is taking place. Spaces for innovation provide opportunities for combination and recombination of ideas from diverse sources. They range from the highly configured to the highly improvized but they all have the same thing in common – they enable people to generate new ideas. Some exist as centres of decision making; others exist only for the period in which the groups come together for a specific purpose.

Spaces for innovation are constructed, fundamentally, as learning and production environments – places where groups from across the disciplines and functions can get together to exchange contextually relevant information and to put it into production. The idea is to put ideas into action there and then.

Physical environment

Imaginative environments for innovation full of toys, puzzles and books have been around for some time now. Everybody has seen pictures of the Google offices. However, the playful interior often masks a serious infrastructure that means business. These work spaces are designed for creative work – and they often work very hard indeed. They are essentially theatres for large-group work, which also contain smaller spaces to work individually or in teams. It may be possible to draw on the walls, but, more significantly, there is ready access to information and focused databases, which enable rapid decision making, There may also exist a team of people who are dedicated to capturing everything you produce and placing it in an easy-to-access web tool, seconds after you have produced it. These environments contain a matrix of electrical and audiovisual subsystems in order to permit multiple configurations for group work, to ensure that when large groups get together the experience is potent, useful and enjoyable. Where filmmaking has pre-production, production and post-production facilities to create successfully in a highly networked creative environment, so too does the innovation industry. The products may differ but the techniques are very similar.

Virtual knowledge environment

The collective knowledge inherent in any commercial context contains a wealth of information. Such a database exists physically, virtually and socially, both within our heads and within groups or teams. Paying attention to the knowledge environment in which a group is innovating enables more powerful decision making. A support crew captures all the information generated by participants, in every format – documentation, video, sound, handwritten, photographic and the web. Making this generative knowledge base available to participants seconds after its creation allows it to be used as a powerful reflexive resource. The capture and display of information in multiple formats provides instantaneous feedback to large groups. Through ever-increasing cycles of feedback, a group is able to navigate its way through labyrinths of information. Providing documentation and knowledge bases for large groups as they move through cycles of creativity, design and production creates a narrative of the journey of their development, as well as cataloguing both the end goal and the iterations needed to achieve it. Beyond a single project, these virtual records become powerful learning tools for the next set of programmes. They also provide context-rich records, which enable those joining the teams later in the cycles to understand what has been going on.

There are online tools which enable asynchronous development of ideas across geographies and time boundaries. Collaborative authoring tools, participatory media, project management tools and other social software are enabling very large groups to exchange information. Online 'jams' are being held as events, across a number of days, specifically to enable vast numbers of employees to focus their ideas on a particular topic or set of prototypes. Video conferencing allows people to exchange ideas at their desktops.

However, despite the sophistication of online tools, nothing can substitute for the assiduous sequencing of events and information that leads to the successful development of an idea from conception through to the launch in the market. This is a process that will always require careful design and nurturing.

Proto-typing, simulation and play

When a large group is engaged in collaborative decision making, it may be useful to construct all manner of models of conceptual ideas, and to test them. Simulation, the playing of games, the construction of small worlds, the testing of hypotheses, questioning, the reordering of information and scenario testing are all tools used for innovation. A CLE provides all the resources required to do so. These may include construction materials for modelling, spreadsheets for financial modelling, large surfaces to write on and iterate ideas, surfaces for moving information around the space, screens for running simulations between groups, areas for role-play, break-out spaces for groups to work in parallel, video facilities for groups to create scenarios, and networked technology enabling parallel work by groups exploring the contextual field as they work through group processes of defining and refining options.

Essentially, whole company innovation is about connecting the right team with information, design resources, processes and documentation in a manner which enables deep understanding of the landscape of information, critical exploration of alternatives and opportunity to prototype ideas – and launch them into the market.

Flexibility and communication in a value web is directly related to the quality of interpersonal relationships – establish multiple opportunities for these to develop

As a system moves through the cycles from innovation, proof of concept, piloting and testing to production, marketing and distribution, the qualities and skills required of teams change. These phases have their own distinct personalities and qualities and it takes a savvy manager to promote the context, attitude and environment that is required for each team within each phase to be successful. During innovation phases teams function best if they are:

- autonomous;
- configured with the best members for the task;
- connected to customers;
- connected to your value web;
- skilled in disciplines associated with innovation;
- incentivized and measured.

Each phase in the life cycle requires different skills to take the lead – in principle, moving from the unstructured to the structured. Even self-organizing teams need to recognize that the leaders of creative phases are usually different from the leaders of piloting, testing, production and distribution phases. An important thing not to lose sight of, though, is that as the baton changes hands, the teams are still checking in with customers and the entire value web. Rapid iterations and feedback cycles are best at all phases. Empowerment is vital – understand the acknowledged experts in the teams and let them make the decisions. Let packaging experts decided on packaging, let the logistics specialists decide on distribution, let designers make the design decisions. Flatten the hierarchies and enable decision making.

Check in with your value web

The opinions of your clients, employees, suppliers, customers and learning networks continue to be vital throughout the inexorable march to market. Encourage osmosis of ideas. In addition to generating ideas, you also begin to mobilize the users of the products, creating a buzz around the new products long before they are launched, and creating an influential user community in the process.

Rapid iterations and feedback cycles

Creating opportunities for rapid iterations and feedback increases the sophistication of the product. IDEO creates project spaces and displays for its products in design, which are open for conversation with anyone who is passing. The products are always visible, the teams are always in close proximity to each other. The same holds true for the design of services: process flows, video scenarios and use-case descriptions enable the communication of these ideas. Encourage teams to build formal and informal feedback cycles into their processes throughout the life cycle of development and production.

Empowerment is vital

Flattened hierarchies work only when roles are clear and everybody knows who takes responsibility for what. Making these roles visible helps. This is not to say that everybody is allowed an opinion on everything – the eureka moment may come from anywhere on a team! However, the final decision should rest with the expert on the team.

The enabling role of leadership

The role of leadership within fast-moving, complex networks is to enable teams to achieve their ultimate objectives – through facilitation, arbitration and demonstration. Leaders are required to be sensitive to changing moods of the network, to understand what blockages exist and to facilitate the opportunities for teams to solve problems. Arbitration is vital when differences of opinion exist – to ensure that differences are tested and that decisions are made in order to enable progress. Fundamentally, leaders model the behaviours they desire to encourage within the broader context of the programme.

Acknowledge the programme phase

Sensitivity to the phase of the programme enables a large group to be clear about what needs to be done and who needs to take the lead. Film production is a powerful example of this because it is so visible. Studio time is costly, and everyone is aware of the phases of production – from filming, to editing, to screen testing and distribution. Acknowledge the programme phase and acknowledge the phase leader.

Incentives and measures

Although teams need to be autonomous, it is important that members of the teams feel rewarded for the work they are doing. Most learning takes place in failure and the design process honours failure. High-volume, low-risk failure! However, business success is also a factor of time and budget – and incentives to meet these targets are vital. Measuring the success of teams against understood criteria, established clearly at the start, provides security. Getting things to market requires clear goals and

deadlines. Healthy competition between teams allows the bar to be raised continuously on quality, outcome and sophistication. Teams find a sense of flow when they are challenged and tested in an environment which provides the skills necessary to achieve. All successful innovation is about people having fun.

The state-of-the-art CLE represents a complex ecology of support systems, environment, tools and technical systems, production systems, learning systems, project management and process support. These represent the infrastructures required to enable a whole company approach to innovation.

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Garrick Jones is an academic, consultant and musician based in London. He is a partner of the Ludic Group, which produces innovation programmes and advises on the development and operation of CLEs and design-led innovation. His career includes Director of Ernst & Young's Accelerated Solutions Environment (ASE) and Director of the Innovation Unit – Innovate:UK. His academic research is focused on large-scale group work and he is the first 1851 Commission Fellow in Design where his research is focused on the power of games for educating design thinking in business. He studied at the University of Oxford, is a research fellow at the London School of Economics and Political Science (LSE) and a Senior Lecturer in Industrial Design & Engineering at the Royal College of Art & Design (RCA) and Imperial College. Further details from Garrick Jones, Institute of Social Psychology, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, UK; e-mail G.A.Jones1@lse.ac.uk

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Partnering with universities

2.2

Enterprises can take a leap forward by drawing on the knowledge within universities, says Dr Siobhán Jordan at Interface, a matchmaker for business/academic partnerships in Scotland

Investing now by tapping into the skills and expertise of universities could help more companies survive the current financial climate as they face increasing pressure to stay ahead of the game in a challenging environment. While many businesses may put their programmes of research and development on the back burner to weather tough times, R&D could hold the key to their success by helping companies to foster that all-important competitive edge.

Here in Scotland, universities and research institutes are home to a wealth of world-class expertise, skills and research facilities, and are well equipped to overcome the challenges facing today's businesses across the UK and internationally.

There is a common misconception that R&D is the domain of larger corporate organizations, but opportunities for knowledge exchange and collaboration are available to companies of all sizes and sector.

Cyberhawk

One such business/academic partnership that has reaped the rewards from an Interface introduction is Cyberhawk. The company, which uses cutting-edge unmanned aerial vehicles (UAV) technology, previously only available to government agencies and the military, joined forces with the UK Astronomy Technology Centre (UKATC).

The firm has adapted this technology to work with leading companies in the Oil & Gas and Energy industries, carrying out remote visual inspections of their assets using the foremost technology available in commercial UAVs or drones.

The introduction to world-leading astronomy experts in UKATC, Edinburgh, facilitated a feasibility study to develop a smart imaging system that would improve image quality within the constraints offered by the remote-controlled vehicle, and revolutionize the way inspections are carried out.

The cutting-edge UAV technology delivers safe, versatile and highly efficient inspections and surveys, utilizing high-definition video equipment, high-resolution still cameras, and thermo-graphic and thermal imaging sensors.

Using an expert team of engineering inspection specialists, Cyberhawk carries out close visual examinations at height in a fraction of the time it takes when using existing conventional methods such as rope access, cranes or mast photography. Trained operators work from a mobile base at each location, providing a real-time 'eye in the sky', relaying live video to a ground station if required.

The UAV improves safety as there is a reduced risk from working at height, an area where most industry fatalities occur. It also delivers time efficiencies and reduces costs – the amount of downtime is a major factor; however, the UAV can inspect structures without taking them offline. Previous practice would involve shutting down production in order to undertake an inspection, whereas now they can just send in the UAV.

Propeller Multimedia

Another business benefiting from working with academia is Propeller Multimedia, a small specialist software company which develops speech and language therapy rehabilitation tools for both adults and children suffering from brain injury and trauma.

The company's main software product developed is React2, a suite of speech and language therapy software that is breaking new ground in computer-aided therapy. Since React1 was launched in 1998 it has been a leading product for speech and language rehabilitation, sold to therapists and private individuals throughout most English-speaking countries.

React2 builds on this success and contains a vast number of new exercises in an easy-to-use and up-to-date interface. It is a huge step forward in computer-based therapy. The React2 development has combined the development skills of National Health Service (NHS) speech and language therapists, as well as specialists from around the world.

Interface investigated how the academic sector could support the development of the young business. The result has been a successful collaboration with SINAPSE, the Scottish university research pool for brain imaging. This is the sort of research that a small company could never fund themselves, and through Interface they are working with the foremost brain-imaging specialists. The academic alliance has injected fresh new approaches to the business and driven new product development which could help take the company to the next level, opening up worldwide opportunities.

UWI Technology

Demonstrating that even micro businesses can reap the benefits of working with academia is UWI Technology, the Scottish firm behind the award-winning packaging label that indicates a warning when a product has gone past its 'use within' date once opened. Interface introduced inventor Pete Higgins to academics at Heriot-Watt University to help advance the technology of the label and develop the commercial potential of the product using its renowned expertise in micro-engineering and experts in colour chemistry. It was also soon realized that the idea had significant global applications, such as the pharmaceuticals industry, medical science and aeronautical manufacturing.

Heriot-Watt is helping the UWI Label develop from idea to marketable product. Currently, the product is in a prototype stage. A low-cost, high-volume manufacturing process is being developed to enter the product into the mass market, with a view to getting the product on the shelves in the near future.

The possibilities for companies looking to access expertise are limitless. There are many ways in which an academic partner can help companies to tackle their real-life business issues and these collaborations can offer a range of benefits for both industry and academics. Academia can develop the commercial awareness needed to guide future developments, and businesses get the help they need to drive product innovations, new technologies and profitability.

There are also various funding opportunities available to offset the cost of the academic collaboration, from short feasibility study grants up to knowledge transfer partnerships to support more long-term strategic projects.

Partnering with academia can ultimately deliver impressive business benefits, including a better product or service; economic benefits through improving sales; and helping to give companies the competitive advantage they need to stay at the top of their field.

Interface is a Scottish Funding Council, European Regional Development Fund and Highland and Islands Enterprise-backed initiative that offers a central point of access for industry to Scotland's research base through its unique matchmaking service. Its aim is to maximize business potential by stimulating innovation and matching a firm with the relevant expertise at universities, which can help develop solutions to solve their business challenges.

This service provided by Interface is proving invaluable to time-poor companies whose resources are already stretched to the limit. Interface does the legwork for businesses, offering a 'face-to-face', personal point of contact that can develop a clear insight into the company's goals and provide support throughout the collaborative process. The team then identify a range of potential academic partners and help match the appropriate academic expertise to support the company in moving the business forward. Interface also offers ongoing support, including progress monitoring, guidance and contractual and fundraising advice. This free service is available to organizations of any sector, any size and in any geographical location.

Established in 2005, Interface – The knowledge connection for business – has helped over 1,200 companies operating across a range of sectors, from food and drink to financial services. It can also give advice on the most appropriate funding mechanism for projects.

Dr Siobhán Jordan is Director at Interface, which she has led since the programme was established in 2005. She holds degrees in biotechnology and process engineering from Dublin City University and a PhD in human genetics from Trinity College, Dublin. Previous posts include senior researcher at the Medical Research Council, Human Genetics Unit and applications manager for the Proof of Concept Programme, Scottish Enterprise.

To find out more about Interface and the opportunities available, please visit www.interface-online.org.uk info@interface-online.org.uk.

Exploring patent information

2.3

Dean Parry, Technical Director at Patent Seekers, discusses how to search patent information to identify innovative products and reveal the competitive landscape within particular markets

The most successful companies keep a keen eye on patent information. They know that patents hold the key to developing and selling new and innovative products within today's highly competitive markets.

Patent databases hold more than 50 million patents worldwide. This includes innovative products and ideas from basic household items to the most technical engineering and scientific inventions. If anything innovative was worth developing and selling, it would have been patented. So if a company has a new product and it wants to determine whether it is new and innovative, there is no better place to search than in patents.

Patent database information

Patent databases contain a wealth of information (much of which is not available anywhere else) for companies to explore and utilize. These databases provide information on patents at different stages of the patents' life cycle (application stage, granted or dead) but they are all published for the public to view.

In general, patents go through a pre-grant stage, where they are assessed by a particular patent office via a search and examination procedure, and if successful, a post-grant stage after a patent has been granted (put in force) by a patent office. Understanding how patents develop can provide more accurate information on the patent strength of competitors and whether particular products are currently protected.

The following list details the different stages that a patent goes through:

- If a patent is in the application stage, this means that it may or may not get granted (be put in force by a patent office) and there are many reasons why it may fail: for example, lack of funds, or failure to meet the statutory requirements (the invention lacks novelty and/or inventiveness). The stage a patent has reached is usually denoted by a suffix that is added to a patent number; for example, a UK (GB) or European patent (EP) patent (known as a patent spec) in the

application stage would have an A (or A1, A2, etc) suffix and the granted spec would have a B (or B1, B2 etc) suffix added to its patent number.

- If a patent is granted, this means that it has been put in force at some stage. However, it does not mean that it is currently in force, as the patent may have subsequently died.
- A patent can die for many reasons, for example its 20-year life has ended, it's been revoked owing to evidence put forward against its validity, there was a failure to pay renewal fees etc. However, care must be taken when assessing this as there are certain situations where a patent can be reinstated, and certain inventions can get extended protection beyond 20 years via supplementary protection certificates (SPCs), eg pharmaceuticals and herbicides.

The above information can give companies access to the latest technological innovations, market trends and the companies that have control over areas of particular technologies. Finding a patent that relates to a product of interest allows a company to identify the owner and see whether the patent is currently in force.

Searching patents

There are a large number of patent databases available to carry out different levels of patent searching and analysis. The best places to start a search would be Espacenet, the Software for Intellectual Property (SIP) database and/or Google (being mindful of the 'Google trap' – your search terms are made available to other Google users). These allow free searching to be carried out by using keywords, patent classifications and company names.

These databases would enable someone to put together a first draft to assess the novelty and inventiveness of an invention. They can also provide a basic indication of any patents that may block the launch and sale of a product. However, the patents found initially may not give the full picture as each patent found may also have a patent family; for example, a UK patent may have other patents connected to it via countries outside the UK such as Germany, France and the United States. These family members would need to be found for each patent (the main family/status information database is INPADOC, which is available via Espacenet and SIP). There may also be multiple patents relating to different aspects of a particular product.

Once all the patents have been found, for example for a particular company or subject matter, the results can be displayed based on the number of patents for subject matter, countries, publication dates etc. These can be displayed as a graph, patent map or landscape, to show trends and how patents may be linked.

Making decisions based on patent information

Patent information graphs, maps and landscapes can all be used to provide vital strategic information for companies, such as:

- Trends for a particular technology, ie the number of patent applications for a particular subject matter over time.
- Potentially identify the next generation of competitor products.
- The companies most active in a particular field of technology (and when they were most active).
- The countries that have patent protection for particular technologies (these give a good indication of where the best markets are for a particular product).
- Partnerships between companies.
- Areas of technology that have very few patents could indicate a good option for research.
- Areas of technology that have a large number of patents may indicate a high probability of litigation or a very high cost for due diligence work.

The above information can be used to develop a working strategy to either avoid potential problems and/or identify new products and new areas for research.

Potential pitfalls

There are a number of problems associated with patent and product searching and the subsequent decisions made from them. These problems include:

- Delays in updates on databases.
- Data incorrectly stored on databases.
- Only partial information available for particular countries.
- Only partial or no language translations for foreign patents.
- Assignee and inventor names can be difficult to pin down (eg a company patent may be registered under affiliates or the director's name).
- The search terms entered into Google are publicly available and website owners can also view the search terms you used to navigate to their website ('the Google trap').

The best ways to overcome the above are to use multiple databases to get the full picture and make sure you properly research a company to find all affiliates, owners and directors. For Google, search around the subject matter without revealing any undisclosed information.

Conclusion

Companies should be aware of the dangers of drawing conclusions based on limited or inaccurate patent information. Properly researched patent information can help companies improve on their knowledge base, indicating key competitors and products.

Companies that regularly analyse patent information automatically have the advantage over their competitors. They are able to identify areas lacking in development and so can identify where the next innovation should be.

So the best advice for companies developing a product or marketing strategy is: know your market, the patents that control it and the companies that own them.

Dean Parry (BSc, MSc) is the Technical Director of Patent Seekers Ltd. He is a former UK Patent Office Examiner and an expert patent analyst. He has led research projects to provide technical defences for some of the world's largest patent disputes and works with companies in the EU, United States, Australia, Canada, China and Japan.

Useful links

Free patent and research databases:
Espacenet: http://ep.espacenet.com/
Software for Intellectual Property (SIP): www.patentfamily.de
US Patent Office search facility: http://www.uspto.gov/patft/index.html
GoogleScholar: http://scholar.google.com/
Commercial patent databases:
PatBase covers full-text on GB, EP, WO, DE, FR and US documents and covers more than 75 countries: www.patbase.com
Delphion covers full-text on WO, EP, DE and US documents and covers INPADOC: www.delphion.com
Dialog provides extensive worldwide information on patents and research papers: www.dialog.com
Classification information:
http://ep.espacenet.com/
http://www.wipo.int/classifications/fulltext/new_ipc/ipc7/eindex.htm

Cutting your IP coat

2.4

Budgets might be tight, but there are plenty of options in creating an efficient package of rights to turn ideas into assets, says Nick Sutcliffe at Mewburn Ellis

Cut your coat to suit your cloth

PROV. **TO PLAN YOUR AIMS AND ACTIVITIES IN LINE WITH YOUR RESOURCES AND CIRCUMSTANCES**

Intellectual property (IP) is an asset which can add tremendous value to a business. However, patents, trade marks and other forms of IP do not come cheap, and tough economic conditions mean that businesses trying to control their costs are starting to look carefully at their IP portfolios.

Even large multinationals, whose IP budgets have seemed limitless in the past, are reconsidering their strategies and seeking cost-effective solutions to achieve their IP goals. For SMEs, whose budgets are already tight, achieving valuable IP goals can be a struggle. However, with careful planning and imaginative use of the options available, even the smallest of businesses can establish an IP platform that balances valuable protection for key assets with the available resources.

Cutting the IP coat of a business to suit its cloth may be vital for growth or even survival in difficult economic times.

Which cloth to cut?

Tailoring an IP platform to suit the needs of a business involves focusing on the business's key assets and revenue streams, both currently and in the future.

Key assets are likely to be those features of the business's products or services which give them an edge over the competition. In other words, those aspects of the product or service which, if copied by competitors, would erode the competitive advantage of the business. Key assets might take many forms and some thought may be required to identify the key assets which are associated with any particular product or service.

Some key assets may be technological. For example, products or services may be based on a new or improved technology or software, or may have a better design than

the competition. Other key assets may be aesthetic. For example, products or services may have a distinctive appearance or a snappy brand name which sets them apart from the competition. Other key assets may be more nebulous. For example, considerable know-how and experience may be acquired in developing or commercializing a product or service.

Who owns the cloth?

Once a key business asset has been identified, the first question to ask is: does it belong to the business? This may seem like a stupid question and it is easy to assume that if a business has funded the development of a product or service, anything arising from that development must belong to the business. In many cases, this will be true, especially if the development work was carried out by employees of the business.

However, if the development of a product involved consultants or contractors or collaboration with a third party, the ownership situation may be more complicated. Usually, the ownership of any IP will be determined by the contract governing the work. For this reason, it is important that the initial contracts or collaboration agreements are in place from an early stage and clearly establish who owns any IP arising from the project.

If it is not immediately apparent from the initial agreements who owns the IP, it is worth sorting out the chain of ownership from the very outset and settling any possible disputes with all the relevant parties. As time drags on, this can become more and more difficult as the stakes get higher and the circumstances of the project are forgotten.

For any assets which might lead to IP rights, you need to think carefully about who was or might have been involved in creating the asset, whether they are employees, contractors, collaborators or anyone else, and then make sure that the paperwork that transfers ownership from these individuals to the business is in place.

Ownership and entitlement of any asset which give rise to IP should be addressed at an early stage, before they becomes a serious headache. No business wants to waste money on IP which may actually belong to someone else.

What to cut the coat with

Having decided what to protect, and established ownership of it, thought then needs to be given to how best to protect it and where. In fact, this can be an iterative process because the 'how' and the 'where' will impact on the cost, so may inform the some extent the 'what'.

Different types of asset require protection by different types of IP. For example, technical features of a product might be protected by patents or utility models. Design rights may protect the outward appearance of a product and trade marks protect its name and logo. Copyright may protect software and documents. Trade secrets and confidentiality may also be useful in protecting aspects of a product or service which cannot be easily reverse engineered by competitors.

The cost of obtaining and maintaining different types of IP can vary considerably. Cheapest of all are the rights, such as copyright and trade secrets, which arise automatically and do not involve any application or registration process. However, managing these rights may not be entirely cost-free. A prudent business will have policies and procedures in place which clearly identify and secure documents and information which are considered confidential to the business. Protection for the business's confidential information may also be reflected in the contracts of its key employees.

More expensive are rights that require an expensive application process, such as patents and registered trade marks. Unfortunately, these rights tend to be the strongest and most desirable.

Patents provide strong protection for technical inventions regardless of their appearance. However, the process of applying for a patent can be expensive and protracted. Some countries offer a lower tier of protection for technical inventions, known as utility models or petty patents. Although offering a lower level of protection, these rights are much cheaper to obtain than patents and may provide a more cost-effective way to protect technical inventions in countries in which they are available. A business wary of the costs and delays of patent protection may also seek to rely on design rights and trade marks, which are usually cheaper and quicker to obtain than patents, but which only deter competitors with a similar appearance or brand name.

In many cases, a combination of different rights will provide the most appropriate protection for any single asset. Choosing the most appropriate IP rights for a particular product or service will depend on both the individual circumstances and the depth of the pockets of the business.

Where to cut the coat?

It is also important to understand that registered IP rights are territorial rights, that is, they are limited to the specific countries in which you seek protection. The more countries you choose to cover, the more applications are needed and the higher the costs. To cut its IP coat effectively, a business must give careful thought as to where it needs IP protection for its assets.

Most businesses will adopt a Swiss cheese approach of obtaining protection in some countries (the 'cheese'), but not in others (the 'holes'), with the objective of reducing cost without reducing the effectiveness of the protection. Typical strategies include seeking protection in key (large or strategically important) markets and, where they are well defined, countries where competitors operate (eg manufacture).

At one extreme, a patent in a single major market may be highly effective in, say, the automobile industry, where the costs of introducing a new model are very high. Without being able to sell in that market, it becomes uneconomic for a competitor to put a potentially infringing product on the market at all.

At the other extreme, if the cost of introducing a product to the market is low, it may be economic for a competitor to market a potentially infringing product in even very small 'holes'. A Swiss cheese approach may not keep competitors off the market altogether in this situation. However, by picking off the major markets a business

may still be able to make healthy profits for itself while accepting that, in other markets, it must share the spoils.

Especially for SMEs, the cost of securing IP protection in several countries early in a project can be prohibitive. Even large businesses may be reluctant to make the necessary investment for broad geographical coverage until a new product or service has proven its value. This can be at odds with the rules for securing registered IP rights, especially patents and designs, which typically require you to have filed for protection prior to any public disclosures of the new product or service.

Fortunately, systems exist that enable businesses to avoid the 'big bang' approach of having to seek IP protection in all countries of interest at an early stage, allowing the associated costs to be postponed without harming the available protection. There are also some regional registrations (in particular Community Registered Designs and Trade Marks, and European patents) that provide cost-effective routes to obtaining protection in multiple countries within the region.

Taking patents as an example, usually a business begins by filing a single patent application at its local national patent office, for example the UK Intellectual Property Office. This establishes a priority date. Further patent applications filed within one year from the priority date are treated as if they had been filed on the priority date, so their eventual grant or refusal will be judged only against what was known in the public domain prior to the filing of the first application.

Instead of filing many individual foreign patent applications at the one-year stage, it is common to file a single 'international' or 'PCT' patent application. For a period, referred to as the International Phase, this PCT application takes the place of the many individual foreign patent applications that would otherwise have been required. Afterwards, in a period referred to as the National/Regional Phase, the PCT application is converted into many individual foreign patent applications, one in each country where patent protection is to be sought. Taking this approach, a final decision as to which countries to seek protection in, and the potentially very high costs of pursuing such protection if a broad geographical coverage is desired, can be postponed up to two and a half years from the filing date of the single, first-filed application, by which time a project is likely to have either taken off or failed, allowing a better informed decision about which countries to proceed in or, indeed, whether to proceed at all.

IP protection is a valuable asset to any business. However, few businesses are in the happy position of having unlimited budgets to pursue this protection. By focusing on the specific IP rights required to protect key assets in important markets, a business can build up strong IP protection for its assets and revenue streams while managing and controlling costs. Careful planning of the 'what', 'how' and 'where' therefore allows a business to cut its IP coat according to its cloth.

Nick Sutcliffe is a partner in Mewburn Ellis LLP, one of Europe's premier IP firms, with over 60 patent and trade mark attorneys and technical specialists, covering the full range of intellectual property issues: patents (in all technology areas), trade marks, designs, industrial copyright and related matters.

Nick Sutcliffe has a BSc in biochemistry from the University of Bristol and a PhD in biochemistry from the University of Leicester. Nick spent four years working in industrial research and development before joining Mewburn Ellis LLP in 1997. He qualified as a Chartered Patent Attorney and European Patent Attorney in 2001 and became a partner at Mewburn Ellis LLP in 2003. Nick's work is mainly in the fields of chemistry and life sciences.

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How to create a position you can defend

2.5

First, secure the commercial rights in an idea. Then look at how to turn defence into attack. Jacqueline Needle at Beck Greener looks at how to bring IP into play

The best football teams have players who, while on the team sheet as attackers, will also defend effectively. It is also expected that their defensive players will score goals. Similarly, intellectual property (IP) can be used both offensively and defensively and all businesses should ensure that they have the IP offensive weapons to defend themselves if required.

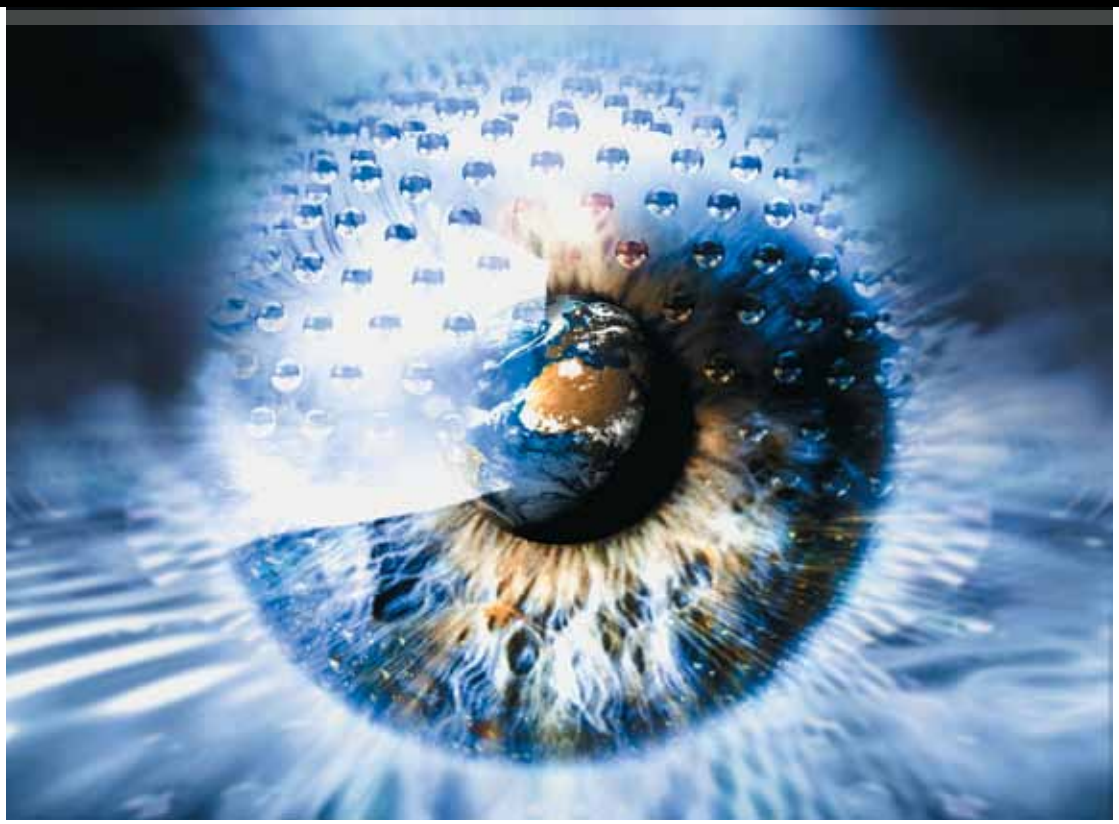
We consider how a company can use IP to create a position it can defend. We explain how a company can obtain effective IP, and we examine cost-effective strategies for using the IP and for litigating if necessary.

It is not a realistic option for an innovative company, no matter how small, to ignore IP. Any business putting a new service or product onto the market risks coming into conflict with the rights of others. For example, the new product may infringe registered designs or existing patents, or the marketing may use trade marks or brands which are similar to those of third parties.

To avoid conflict, searches should be made to establish what relevant rights exist and then, if necessary, the product or service and its marketing should be adapted to ensure that there is no risk of infringement. But what if the owner of those rights still takes the view that there is infringement and calls 'foul'? The fully defensive option is to walk away from the project and absorb the resulting losses. It is also an option to proceed, and to risk infringement proceedings with their consequent expense.

The attacking option could be to obtain relevant IP rights for the new product and for its trade mark. These rights might be used to negotiate a deal with the competitor or might even be used offensively to initiate proceedings in the event that the original complaints are not withdrawn. Of course, the attacking option also has the massive benefit that, even if the IP is not needed to resolve a conflict situation, it provides protection for the new product against all comers.

Keeping an Eye on the Bigger Picture



AT BECK GREENER we are expert at seeing the bigger picture and advising how you can utilise innovative new ideas to create wealth. Our comprehensive professional service and in-depth experience enable us to guide you from initial concepts to commercial success.

Naturally, valuable innovations need to be protected and we provide expert advice on intellectual property protection. Our aim is to give the best professional service in all circumstances.

If you require professional services in the field of intellectual property, we can help. Please contact one of our partners.

For trademark matters contact Ian Bartlett. For patent matters contact Jacqueline Needle.

BECK GREENER

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Obtaining and keeping strong IP rights

A company using IP effectively will have an adequate knowledge of IP issues, have routines in place to safeguard rights and will seek professional assistance when required.

Routines to safeguard rights

Any proprietary information of commercial value should be identified and kept confidential. Employees should be made aware that such confidential information must not be divulged. Measures may be taken to restrict the availability of confidential information within a company. The recipe for Coca-Cola is still known to only a handful of people, and some years ago the courts underlined its value when they jailed an ex-employee who attempted to sell the secret to the competition.

Other IP rights, such as copyright and unregistered design rights, also arise automatically. Such rights protect original logos, software, literary documents, such as business information, and the appearance and design of manufactured products. A company can stop others copying the form of the information or copying the products, but to do that it is necessary to show that the rights exist and that there has been copying.

Proving that the rights exist just requires a systematic approach. All original documents need to be retained together with their date of creation, and information identifying the author or creator needs to be kept. The company also needs to ensure that it owns the rights. For example, a company commissioning a logo design will not automatically own the copyright in the resulting logo. A specific agreement will be required to transfer the copyright from the designer to the company.

Seek professional assistance

A majority of those made rich with the assistance of IP, such as James Dyson and Ron Hickman, have had ideas or inventions which have been patented. A patent can only help if it is valid, and a valid patent can only be obtained if the patent application is filed before there has been any public disclosure of the invention. It is essential that any new idea of potential worth is kept totally confidential to the company until after the first patent application has been filed.

It is important to get the patenting decision correct, especially if a project is thought to have commercial value. To be patentable, an invention has to be both novel, as discussed above, and not an obvious or trivial development of what is already known. Many inventors define the final result of their labours as obvious, and therefore, unpatentable. However, they are often wrong, primarily because they undervalue their expertise and the effort they have expended in the project.

If the invention has taken time and money to develop, will take further resources to get into the market and is forecast to have a future, take professional advice. There is a very high chance that the invention will be patentable, if not in Europe then in the United States. Alternative forms of protection, such as a Community registered design, may also be available and might be commercially useful.

Where to obtain protection

IP rights are territorial. A British patent or registered trade mark, for example, provides enforceable rights in the UK only. Unless there are comparable rights in other countries, a third party can make and sell a product protected by the British rights in countries outside the UK with impunity. This suggests, therefore, that for complete protection, a business may have to obtain patents and registrations in a long list of countries, with consequent expense.

Patents are the most expensive of the rights to obtain, but fortunately no competitor is likely to build a new factory in a different country simply to escape a patent. Therefore, in practice, the manufacturer of a new product to be sold globally will need, for maximum protection, a patent only in those countries which have a manufacturing capability for the product concerned. Many existing businesses currently seek patent protection only in a short list of countries, for example in the United States, the UK, France, Germany and Japan.

Of course, the fastest-developing countries in these difficult times are the BRIC countries, Brazil, Russia, India and China. All four of these countries have strong manufacturing capabilities and if a new product is likely to be saleable in one or more BRIC countries, perhaps now is the time for businesses to seek patent protection in those countries.

Although each of the four BRIC countries has a well-developed patent system, they all present challenges and a company should only consider patenting in a country where they have real plans to do business. All countries traditionally have requirements in their patent legislation giving to local business the right to a license under a patent where the patented process or product is not used in the country. In most places such provisions are rarely used, but there is a tradition throughout South America of requiring local working of a patented invention for the patent to endure. In Brazil the government has shown itself willing to award compulsory licences to meet its economic aims, for example to get access to generic versions of patented drugs.

Before seeking protection in a BRIC country a business should establish that the innovation is likely to have a market in that country. In addition, it is probably best to find a business partner in the country concerned to ensure local working, and to have someone 'on the ground' to report instances of infringement.

Cost-effective enforcement of IP rights

It is commonly said that obtaining IP rights is a waste of time because the company will not be able to afford to enforce those rights. However, less than 1 per cent of all patents are involved in any dispute, and it is the existence of the patent, rather than of the invention, which provides the wealth-generating opportunities.

If a product newly on the market is successful it will soon attract the attention of competitors. They will want to provide their own versions and thereby share in the potential profits. If the product is not patented, the competitors are free to use the idea, although they cannot make a slavish copy.

If the new product is patented, or is the subject of a patent application, the majority of businesses will pause before rushing to develop rival versions. Even a large business is reluctant to get involved in patent litigation without good commercial reasons. When Xerox introduced the first generation of copying machines, they had a worldwide monopoly for the 20 years for which their patents existed without having to take action for patent infringement.

The competition is attracted by success, and so infringement actions are generally about inventions that make money. This profit stream alone might be enough to enable a patent action to be funded. It is also possible to take out legal expenses insurance to fund such actions.

Of all patent actions started in the UK, only about 15 per cent go all the way to trial. This is because the initial action is often successful in achieving a settlement. For example, on establishing that a competitor is planning to put on the market a competing product which infringes various rights, a company may apply to the court for an injunction to stop the launch. The hearing will come to court urgently and will probably last less than half a day. If, as a result, the competitor is prevented from going forward with its product, a commercial settlement with the product off the market permanently can result. Alternatively, if the competitor faces huge losses because it has been stopped from selling the product, it may be amenable to a settlement providing royalties to the rights owner.

The professionals who act for business in protecting their ideas and innovations are Chartered Patent Attorneys (CPAs). A number of patent attorneys are also Patent Attorney Litigators (PALs) and able to litigate IP actions before the courts. The traditional way to conduct IP litigation in the English courts was to use a highly expensive team of a patent attorney, a solicitor and a barrister. A PAL can make it unnecessary to use a solicitor and thereby reduce the costs. All UK patent attorneys also have full rights, including rights of audience, in the Patents County Court. A cost-effective solution to litigation can be obtained by an informed choice of court and professional.

Jacqueline Needle is one of the select group of patent attorneys in the UK with a Litigator's Certificate which gives her the right to conduct litigation in IP matters in all of the English courts. Jacqueline has extensive experience of patent drafting and prosecution both in the UK and in other countries. She is a partner of Beck Greener in London and can be contacted at: jneedle@beckgreener.com; tel: 020 7693 5600; website: www.beckgreener.com

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PART THREE
Build the brand

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How to move a brand forward

3.1

Ben Harris at New Brand Vision sets out a framework for bringing all the elements in a marketing campaign together

Your business is established, you're looking to expand at home and abroad, and your attention is turning towards marketing to ensure that you have all your 'ducks in a row'. Agencies offer a bewildering range of services, often shrouded in creative mystery and confused by industry buzzwords. So where do you go and who do you ask to find out about your marketing options?

The following article is designed to help create a framework and checklist of areas that every business should consider – it focuses a little more on service businesses than product businesses but the same principles still largely apply.

Brand strategy

Who needs a brand strategy? In order to undertake any marketing planning or activity, a creative brief is needed that sums up the strategy and direction of a company (or brand if distinctly separate); also, and just as importantly, the foundations on which it competes in the marketplace, and any practical requirements.

In order to write the brief, you might already know what your brand stands for, how it differs for each of your target audiences, information about these customers, how your brand sits in relation to its competitors and how you differentiate yourself from them. If you don't, it's time to look. This is where the agency can offer very practical assistance.

However, in my experience, there are pitfalls to creating a brand strategy at this stage. A brand value, a positioning statement, a mission statement or perhaps even a brand essence, they may all sound right but applying them to design and judging whether a shape, a colour or a font is a good interpretation of them is a tricky and subjective business.

We have found that a good website planning process can lead to much better answers. Clients understand websites more than notional brand strategies and are able (and realize they need) to make very clear decisions about how to categorize and segment their offering, and how it differs from one target audience or location to another.

Once fundamental decisions have been reached about the business using this method, the brand strategy starts to shape itself and a culture, a direction and a competitive stance are easily revealed. Conducting some brand planning at this stage is a very natural next step and provides your marketing adviser with a more advanced understanding of your business to kick off the creative process.

So in short, my recommendation is not to rush into a large brand strategy project without considering what you actually need to achieve from it, and to challenge whether there are better methods to identify the answers. After all, you just need a brief to be able to produce marketing materials that will help you generate a return. And that's what it's for. A strategy document on a shelf getting dusty is no help to anyone.

Name

The next question to ask is… if your brand name is the right one for now, will it be so in the future? You may not have had foreign markets in mind when the business started but it is vital to ensure that the name(s) make sense overseas and of course won't offend anyone. If you're about to grow and thinking of readying your brand, now is the moment to make any necessary adjustments. At this stage it might be sensible to have a trade mark attorney check there are no obvious trade mark infringements, as money spent now may save you very much more in the future.

As a general rule, I think it's always better to work with existing names if you can, because naming is a tough soul-searching exercise. Sometimes marketing resources can simply be better spent creating more productive communications that will lead to increases in revenue.

I am not worried about the possible loss of brand equity with a change in name, though it depends on the circumstances of a business and its relationship with its customers. There are only a few opportunities in a business life cycle when a fanfare is appropriate and possible. Therefore, if your budget allows, a change in name is a real opportunity to celebrate with your existing and prospective clients, suppliers and partners, everything that your business stands for, under the guise of announcing a new name change. It's a moment when you can communicate with them in a number of ways and multiple times by sending them literature and branded materials, and inviting them to events – all without the need for a sales message. So, a change in name could and should strengthen relationships and in turn, boost business – more so than just a new logo or website can do.

Logo

Do you need a new logo? Rebranding (the general term for a new logo) is generally subject to bad press because of the perception of high costs. Businesses therefore tend to be fearful of starting along that road, but it doesn't have to be expensive or be incurred in one go.

The struggle that many businesses have is justifying the need for a new logo because it's something that won't generate a direct return on investment. But a strong modern identity will, in my view, produce a much better chance of doing business.

I always prefer that marketing money is spent on producing materials or delivering a campaign that will lead to an increase in business. So if the logo can be left as it is, it probably should be. What I have found, though, is that when it comes to producing a new brochure or website that may last several years, starting with a slightly dated logo identity can hold it all back. It is possible to refresh a logo subtly to keep it up to date and a good designer will be able to give the impression that it's the same, while sympathetically modernizing it.

So my advice here is: you may not think it needs a refresh but always be open to it while undertaking a major project such as a website or brochure. Let the experts guide you as they bring fresh viewpoints and please don't think that your clients will mind – they won't. Updating a logo doesn't mean that you have to replace every piece of branded collateral – a gradual change can occur – it's normal, and it's better than not doing it at all.

Website

A website is the centrepiece of any marketing effort. The quality of a website in the eyes of a potential customer speaks volumes about an organization. The web is a place they can go to research or validate their views of an enterprise. A great website helps move a potential customer nearer a buying decision, whereas a flaky, old, dated and unloved website can, and probably will, undermine the buying process.

Fully functioning and effective websites are inherently complex. The process of developing websites for all sizes of companies has evolved and a corporate website that cost £6,000 a few years ago will now cost £25,000 or more to replace. Even the simplest four-page website requires the involvement of at least five different skill sets. The process is more sophisticated and it needs to be; think about it in terms of refitting a high-street shop – after all, a website is a shop window. The more up to date it is, the more value customers place on what is on offer, and the more likely they are to make a purchase. It is essential for any business to have a good website, and getting it right takes architecting, design, construction, and fittings (the software that runs it).

If you're planning an international roll-out this is even more important. A quality website can give a strong sense of credibility and can help businesses enter new markets where a brand name is little known and where the need for validation is even greater.

If there is only one area of marketing to which you would like to direct your efforts and resources, the website must be it. Don't penny-pinch and, above all else, the software you choose to run it on (a website content management system or CMS) is one of the single most important decisions when choosing a provider. CMS is a whole different ballgame and deserves an article of its own.

Search engine optimization (SEO)

So how do you generate warm leads from your website? You may have heard the term 'search engine optimization' or 'SEO'. This is the process of making your website as visible as possible to search engines so that they can list your website when someone searches for a relevant service or product you offer. After all, no one is going to scroll to page 100 to find your site!

The number of top listings can be influenced in the way a website is built and set up, the way text is written, and by running an active link-building campaign. If the website has been intelligently planned it will capture the details of a visitor to the site who may be interested in the services you offer.

SEO does not produce instant results; it requires a medium- to long-term view. Achieving high listings, though, is game-changing so it's worth the early investment. An SEO campaign is a staple part of the marketing diet and its return on investment when high listings are achieved is considerable.

Pay per click advertising

Pay per click advertising (PPC) works on the same principle as a company bidding against its competitors for their adverts to appear as high as possible on search engine results. The brilliance and simplicity of PPC is that displaying the advert itself is free. Unlike any other form of marketing, it means that when using PPC you can accurately calculate how much it costs to generate a lead or to make a sale.

Advertisers only pay when their adverts are clicked and a visitor is delivered to their site. Using simple tracking methods, it is possible to quantify how many of those users requested information, subscribed or made a purchase having clicked on a PPC advert.

I do hear many people say that they run PPC while they're waiting for SEO to kick in. But the reality is that if PPC is working, when SEO arrives it just compounds the results, so they stick with it. Having two listings on a search result page dramatically increases conversion rate.

If you plan to spend £50,000 (plus national insurance, overheads etc) on a salesperson to create your leads, just bear in mind that the same money could potentially buy you, say, 25,000 clicks depending on the industry you're in. This is where the perceived whimsical and creative side of marketing becomes hard commercial reality.

Calculate the percentage of those that will contact you having seen your website, and those that will subsequently convert, then multiply revenue/profit by the number of clients you think will be generated. You'll then be able to make a reasonable assessment if it's worth trying or not. A tip though: you also need to factor in the time to actively manage a PPC campaign – a vital ingredient to achieve success.

Social media/online PR

'Social media' is certainly the latest buzzword and over the last couple of years we've seen corporates truly get stuck into it, having been shy of engaging at its inception. Social media means online PR – spreading your message in different ways, without cost, to audiences that might be interesting in reading about your organization, what you do and what you have to say. The likes of Twitter, Facebook and LinkedIn make it more conversational rather than just a blunt message. I would highly recommend a realistic social media element factored into every business marketing strategy.

Other online marketing

Other online techniques include banner advertising and affiliate marketing. Both include an advert or link from a third-party site back to their own. The former is where a fee is paid for the amount of traffic it generates, the latter where the advertiser pays for a resulting sale rather than a resulting visit – either a fixed fee or a percentage. Both can be useful but less so for service businesses.

Traditional forms of marketing

These in my view are offline advertising, whether it is press, radio, outdoor or TV advertising, and direct mail. They still have a use, but they are mass media so they are expensive, random and frankly one of these elements on its own just isn't enough to get results. If you're going to persuade the masses to buy or do something, it will take more than one ad campaign in isolation to achieve it. It requires an integrated strategy of multiple tactics. I think there are many more efficient strategies to try first and only when they are exhausted should these be considered. For example, imagine how many visits to your website you'd get for the amount you'd spend on such activity.

PR

This is not my area of expertise, but I like it nevertheless. For some businesses it can show an excellent return on investment (ROI), though for others, getting consistent coverage is hard. Social media has brought an interesting angle to PR, and sites like Twitter help to build followers and relationships informally outside of a particular campaign – so when you do have a message to tell, there's a pool of advocates to listen and waiting to spread the word for you.

I hope you found the above elements useful. There are other strategies to consider but these ones are central to effective marketing and certainly the best tools in the box. So explore and consider what will be the best way forward for your business.

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Creating desirable brands

3.2

Nick Graham, managing director and founder of Clear US, has six principles for creating brands that stand out from the competition

In a world where brands interact with consumers across a huge number of touchpoints (web, mobile as well as traditional), there is no longer any space for brands that follow. Clear's annual survey of consumers shows that, in most categories, the majority of brands follow category norms. These brands are less likely to create desire among consumers and, as a result, growth for the brand. Take a look at your brand and ask yourself if you stand out from your competitors. Our six guiding principles can help create desire – and therefore growth – for your brand.

In the past two years, we have spoken to nearly 40,000 people around the world to identify the world's most desirable brands – those that really deliver against this ambition – and more importantly, to understand what they do differently to create that desire.

Our studies have shown that the businesses that own the world's most desirable brands outperformed the Standard & Poor's 500 index over the past five years, delivering higher share value growth and greater share price stability.

We have also determined six behaviours common to desirable brands. These guiding principles remain true, irrespective of category or country; the more brands adopt them, the more desirable they will become. They represent a simple but powerful framework for assessing how to create greater desire for any brand. Challenger brands should pay close attention to these principles, as they offer guidance on how to continue to grow and to challenge established brands, within and even beyond their current category.

The six guiding principles are:

1. Think bigger than your category.
2. Focus on the future.
3. Have clarity of purpose.
4. Inspire connections.
5. Create experiences.
6. Constantly innovate.

1 Think bigger than your category

Seventy-five per cent of consumers have a preference for a certain 'type' of brand, regardless of the category to which it belongs. For example, we are hardwired to desire brands that we believe help us be ourselves or become the person we aspire to be. If that type of brand is available to us in a category, we will choose it; for example, consumers purchase the Method brand to signify that they're environmentally conscious. If it isn't available, we will compromise – begrudgingly.

It's clear from our data that desirable brands do not adhere to the rules of their 'category'. They actively look for a bigger role, a role in people's lives, not just a role as a solution for a narrow problem. This enables them to challenge the status quo, to pioneer new ideas, and to develop a range of propositions that transcends their origin.

Many of the most desirable brands we uncovered have done precisely this. They are chomping at the bit to bring their ethos to new categories:

- **Google** is so much more than a search engine. The year 2011 saw the launch of Google Wallet, a bold foray into the world of contactless payment. Using near field communication (NFC), it allows people to pay for items through an app on their smart phone. It will be capable of storing thousands of payment cards, loyalty cards, gift cards, receipts, boarding passes and tickets and, in time, even your keys may be synced to your Google Wallet. Google profits were $9.7 billion in 2011, up from $8.3 billion in 2010.
- **Amazon** is so much more than a retailer. Amazon broke its mould by producing the Kindle and is changing the book market. In addition to doing away with the printed book through the Kindle, Amazon is cutting out publishing companies as middle men by having its own in-house publishing unit and gaining the rights to directly publish some big titles. Net sales increased 41% to $48.08 billion in 2011.
- **Seventh Generation** believes in creating products that make a difference for the consumer, the community and the environment. Having a clear mission that is about far more than their products has enabled the company to stretch beyond cleaning into baby care and personal care. Sales have increased at around 11% year on year in a category that has traditionally experienced little growth.

Marketers and brand owners tend to set themselves boundaries; brand users do not. We all have the opportunity to challenge these boundaries to create more desirable brands. The learnings for challenger and new-to-market brands are consistent; however, the opportunity for challenger brands is in many ways larger, as they can embrace a vision and mission that redefines a category.

2 Focus on the future

While it's important that brands transcend their category, this should be done with direction. Desirable brands understand where the opportunity is in the near future, but also anticipate where the long-term opportunities for growth exist. This isn't just

about commercial or technological opportunities; it's about the chance to create a future that meets people's rapidly changing needs and behaviours. Just look at financial services; mobile banking is changing the market, with traditional banks facing a new set of competitors in the form of Google, Movenbank and potentially Apple. Brands that invest in shaping and improving the world around us reap the reward. This means having a vision while giving the organization the space, resource and licence to make it happen.

Microsoft recognized that the future of gaming is 'you as the controller'. The X-box Kinect has become the fastest-selling consumer electronics device of all time. The release of software development kits is opening further uses beyond pure gaming, such as video surveillance and medical imaging. As a result, Microsoft as a masterbrand has enjoyed an uptick in desirability from 2011.

Kodak did not recognize that the future would be digital. Although one of its engineers invented the first digital camera in 1975, it was too slow to exploit the technology, investing in film instead. We all know how that story ends.

Being continually desirable means always looking beyond the present and being clear about what your role is in crafting a better future – and having a point of view about what that future should look like.

3 Have clarity of purpose

Desirable brands have an ambition that goes beyond delivering commercial targets. They have a clearly articulated purpose that inspires internally and externally – a bigger ambition at their heart that people truly buy into, and that shapes and guides all brand-building activity. And they have a distinct and compelling personality that builds and supports that purpose. The whole story is brought to life in what the brand does as much as what it says:

- **Nivea** is a brand with increasing desirability. Its purpose is to help people feel closer. Through all their products and recent innovations, Nivea is true to its higher purpose of nurturing the emotional bond between people that comes through physical contact, helping them stand out in a crowded (and often unemotional) market.
- **Horizon's** purpose is to 'support health families and a healthy planet'. As the seventh most desired brand in the United States, this shows the power of a mission to create connections with consumers. Horizon is a profit-making business, but one founded on a purpose that is evident in every part of the brand, from innovation to communications.

All of these brand purposes work at a deeply human level. They are simple, recognizable and appealing. We can all see how they make our lives better. For smaller businesses, look at your brand's purpose and compare it to that of your competitors: do you deliver something different?

4 Inspire connections

Desirable brands inspire people to think, feel and act differently. The most desirable brands can make us love them, respect them, talk about them and use them. Each one of these can provide an area of brand-building focus to strengthen overall desirability.

The most desirable brand in the world, **Apple**, does a great job on all these measures. There is much we can learn from how it connects with our hearts and heads, but what sets it apart is how it always seems top of mind and part of our conversations. Through strong positioning, inspiring and clear messaging, and a consistent, engaging product and service experience, Apple has ingrained itself into the fabric of our culture in just 30 years. There are few brands that possess such 'badge' value as 'I'm part of the Community' Apple.

Adidas is growing in strength. Recently, it has built on its strong emotional and functional heritage and, compared to last year, has significantly improved how people act in reaction to the brand. Compared to last year, more people want to hear about Adidas, more people want to talk about Adidas, and more people want to use Adidas in the future. Oh – and its sales are up 14 per cent.

Dove is a brand that has always had a strong functional story about moisturizing and care but, in recent years, it has impacted how people feel about beauty. It has significantly increased its emotional connection with consumers in the areas of pride, attraction and meaning through the 'Real Beauty' campaign. This has been done while maintaining its strong rational appeal as a product that works.

USAA is one of the very few financial services brands in the Brand Desire survey that made it in to the top 100. Its position at number 15 in the survey indicates that consumers are looking for a different type of banking relationship, one that is about connections and compassion. Built on a foundation of caring and providing for current and former military personnel, exemplified through its emotional message of 'let us serve you' and impeccable hands-on service, this is a brand that challenges the way that the banking industry operates.

To be a brand that makes a truly meaningful difference in people's lives, it's essential to have an idea people feel connected to, a product they believe in and a story they want to talk about.

5 Create experiences

Desirable brands are so much more than a product or service. They create an experience coordinated across every touchpoint to bring the brand to life. They create an experience that influences the head, the heart and the hand that adds up to a truly compelling and distinctive brand.

Audi's growth in desirability continues. It offers its customers technologically advanced products that are particularly noted for their sophistication and reliability; beyond that, Audi strives to delight its customers with the best brand experience available, consistently delivering 'sophisticated', 'progressive' and 'sporty' at every point of contact. The communication, the car, the showroom, the

sponsorship, the service bays and even the new UK headquarters on the A4 consistently deliver this experience.

Nike is so much more than sports equipment. The brand uses a range of touchpoints to create an experience true to its purpose of helping bring out the athlete in all of us. Nike is pioneering the digital experience through Nike plus, with a range of propositions to help coach, motivate and share consumers' fitness experiences.

Disney has always believed in magical childhood entertainment. It embraces and utilizes new touchpoints to ensure that the brand's purpose is delivered at every encounter. Disney created a Cars 2 app that allows kids to interact with the iPad as if it were a play mat. Kids hold a toy car on the screen and complete races and missions, bringing the brand to life in a different format.

It doesn't matter whether your brand was born in a factory or in the digital world; all brands now need to consider themselves a series of evolving touchpoints to genuinely connect with people. This is increasingly important as the number of consumer touchpoints continues to grow; for example, look to the incredibly fast-paced growth of m-commerce. What experience does your mobile site create?

6 Constantly innovate

Desirable brands constantly engage us in an evolving and interesting story. They innovate, not just in the area of product, but across everything they do: service, people and process. They provide an ongoing supply of new things we can watch, read about, talk about, play with, buy and enjoy. In this way, their role in our lives is ongoing.

Google never rests in improving the whole brand experience. Whether in search enhancements like Google instant, playful logo innovation or bigger innovations like contactless payment, their offerings are always at the forefront of technology and consumer behaviour.

H&M uses collaboration as a source of ongoing innovation. Limited edition clothing lines with Jimmy Choo, Sonia Rykiel, Roberto Cavalli and Vivienne Westwood, with plans to collaborate with Versace in the future, keep the brand fresh.

The common theme across all these desirable brands is that they innovate to make our lives better. Smaller businesses often assume that they cannot innovate in the same way as large corporations; however, this is often the reverse. Smaller businesses are nimble enough to change and adapt; large companies aren't. Start with your brand purpose and then look at what innovations, big or small, you could launch to build and strengthen it.

So there we are: six simple principles that offer a route to creating desirable brands that genuinely make a difference to people's lives. Truly desirable brands deliver on all six. As brand owners or brand advisers, we should be asking whether our brands are behaving in this way. If not, we have some work to do.

Nick Graham founded the US business of the global brand consultancy Clear (www.clear-ideas.com). In the space of three years, he has grown the office from 2 people in a tiny office to a team of over 25. Before joining Clear, Nick held a number of senior roles in brand and innovation consultancy. He brings brand and innovation strategy together with expertise in qualitative and quantitative insight to deliver powerful solutions that build brands. Over the past 12 years, he has worked with many of the world's leading brands to launch new products and brands. To learn more about Brand Desire, have a look at the website: www.brand-desire.com or for Clear's latest thinking on how to build desirable brands, see www.clear-ideas.com

Digital rules for brands

3.3

Social media? Nicholas Gill, Planning Director at Doner, picks out 10 lessons for brand strategy

> *The internet is the dominant platform for life in the 21st century… it is the central platform for business, culture and personal relationships.*
>
> **BEN HAMMERSLEY, SEPTEMBER 2011**

It is. Not soon, not in a few years, but now. But in business, we're slow to catch up. Some of us are not sure why this is happening and what needs to change internally and externally.

We are in the information age. But we act as if we're in the industrial age. Factory mentality rules. Process this, refine that, get a repeatable outcome every single time. No exceptions. Except in our economy, that doesn't happen. We don't live in a 9–5 economy. Example: Facebook traffic peaks at weekends and evenings. How many brand managers are actively looking after their brand beyond Monday to Friday 9–5? We live in lumpy times. Not repeatable. Our workload is up and down. So we compensate for lumpiness with meetings. Because downtime is a sin. But where some detest this, others embrace it. Google allows developers 20 per cent of their working week to develop projects. This is where Gmail, Google Plus and other game-changing technologies have come from, not sat in endless meetings or churning through a gazillion poor uses of e-mail that are a time sink.

We fear change, because change means different. It's hard. And the change needed is immense because it spans the entire organization, not just adding Facebook and ticking the social media box in the comms list. We need to change across the enterprise – change from jealously guarding our knowledge stocks and eking out ever-decreasing profits from them, to becoming more open, collaborative and sharing.

The silo model organization inhibits growth. Of course, you can't break down all the barriers, but you need to become more porous. Demilitarize the silos. Share the data reserves, but harness them and mine them for actionable insights, not just pretty charts. And it can work.

It's a similar story for marketing to people – the external environment. TV has been with us since the 1950s. It's now a process – honed and toned, familiar, trusted, and yes, still effective. But with recent developments, it can be bigger, better, more effective.

And then technology came along and we hid away because we fear change. But even old things that we thought were dying have been given a new lease of life. Take outdoor. Eyeballs were the thing. But nobody looks up any more. We're praying to the BlackBerry. But give people a reason to look up.

We carefully trap our consumers in our stream of high-impact TV, grapple them with press and outdoor, and opt them into an e-mail programme that will bludgeon them to death with messages until they finally buy our product. And now they're in our box, we'll maintain our customer relationship management (CRM) programme to keep them loyal. Process – we love that stuff in the marketing world.

Here's the thing though: technology changes, people don't. They like to disrupt, to change, to do new things. And new things don't have a history of past performance, so we don't know what will happen.

We fear change. This is why brands have been slow to embrace technology. All the while our consumers are doing interesting things without us. They love mixing the streams, messing with things. Our precious brand being messed with is hard to take. But it can be brilliant.

Which is why brands are behind the curve on mobile. It's perhaps the most exciting thing to happen in marketing, yet it's being largely ignored. Mobile devices were predicted to outsell PC shipments in 2015. This already happened in the last quarter of 2011.

The opportunity for brands in simultaneous viewing is huge. It becomes more communal, enriching, and adds excitement. Just hop on Twitter or Facebook on a Saturday night when *The X Factor* or *Strictly Come Dancing* is on.

Mobile represents as big a shift as TV did, because you always have it with you. Thirty-five per cent of women under 30 check their Facebook news feed BEFORE they get up.

It's exciting because we know your location, the context (contextual ads based on mobile search terms have six times greater impact than banner ads on the web), and it is real time. And if you can combine the data you have unleashed from silos, imagine how powerful that is.

Contrary to popular belief, TV is not dead. It's evolving. We spend more time watching TV than anything else. Still. We do it in different ways. Technology has improved our telly entertainment. But it also means we need to be smarter. Run of network advertising will get fast-forwarded – some 70 per cent of ads are fast-forwarded on personal video recorders (PVRs), which is no surprise when we're time- and place-shifting our viewing. Appointment-to-view TV gets saturated and expensive. You need to think and behave differently to light the fires that a great TV ad can start.

So how do you stop fearing change and embrace digital technology? Here are some starters for 10:

1. *We should really stop calling it social media and start calling it social business.* 'Social media' suggests that Facebooky thing, when really the big change is about how digital technology can help the entire organization. From active listening to understanding usage of your products to helping foster new

product development to resolving customer issues in real time on Twitter, it's not just marketing that needs social media. You also don't need a social media strategy. You need a brand strategy that leverages social media. Creating a completely separate strategy is defunct and pointless. What is your goal and how can you best leverage social media to help you achieve that?

2. *Focus on metrics that matter.* The number of Likes and followers is vanity. If you just want high reach, then just spend more on your above-the-line (ATL) media. What's important to CEOs and leaders is metrics that have a tangible benefit to the business. Prove that your Twitter team have reduced churn through identifying dissatisfied customers and the business case becomes interesting.
3. *Start small.* The nature of social media and mobile is that you don't need to invest large sums to get going. Start small, see what works and what doesn't. Do more of what works and stop doing what doesn't. And ramp up your investment as you go. A small slice of your ATL investment can go a long way in mobile.
4. *It's not your platform.* While nearly a billion people will be on Facebook soon, you don't own those people or that platform. Facebook has made a habit of changing its design and user experience repeatedly over the past few years, requiring brands to relearn the platform and re-engineer designed landing pages and applications to fit the new guidelines. This will continue. You have no choice and must be adaptable in terms of both change readiness and budget contingency. It's also the reason why you would be foolhardy to exit your own web presence totally, because that is where you have total control of the user journey and how you wish your brand to be portrayed. An effective digital strategy leverages the best of both.
5. *It's a grown-up medium, which requires grown-up ownership.* You wouldn't let an intern loose running your warehouse operations or indeed your financial control. So why anyone would imagine that a young person with no experience can run your most publicly exposed outlet is beyond me. It requires someone who truly understands your brand and can be both lucid and interesting in creating, sharing and interacting on content but also quick, accurate and helpful when answering comments or questions.
6. *Have something to say.* Your brand has a voice. Agencies have long sought to create a tone for brands that is often simplified to a number of words in a book that sits on the shelf. But the wrong voice in a social medium can spell disaster. Be true to your brand. Be true to your voice.
7. *Preparation is everything.* You could get going in social media in the time it takes you to read this bullet point. But without ensuring that your organization is ready, it's pointless. You need to ensure that your legal and HR teams are on the bus with you, and that you have a social media guidance or policy that employees can understand and adhere to. You need to ensure that each part of the organization is geared up for when someone asks you a question. You need to ensure that your PR crisis plans are in place and practised. If you have skeletons in the closet, you need to open it and be

prepared before anyone else breaks open the cupboard door for you. Even brands like Nestlé have been repeatedly burnt and shamed in public for this. Ensure that people know their roles and expectations. This applies to setting out your guidelines on community usage, including abuse and profanity.

8. *Integration is key*. Social media is not a silo. It needs to live with other communications channels and also, crucially, be connected to the business operations – because people will tweet you about their late delivery. If you're not connected to your back-end order systems, how can you help?
9. *Near-time mentality*. Nobody expects you to respond immediately around the clock. But digital technology is now so pervasive that we do expect responses in good time. We use the phrase near-time to express the mentality. There is no time for a two-week legal approval turnaround. You need to respond quickly, especially if there are issues. In a medium that values 'engagement', no response – or deleting comments – is highly likely to burn you.
10. *Common sense*. Because technology, digital and social are constantly evolving, things will change. And situations will arise that you've not encountered before. Take a step back. Breathe. And use common sense. You don't need social media gurus to help you with that.

Nicholas Gill is Planning Director at Doner, leading the strategic development of integrated marketing experiences to improve business performance. He has over 15 years' experience as a strategic lead and client partner working with brands including Fiat Group, Ford, Unilever, Shell and Activision for leading agencies including Ogilvy, Digitas, Wunderman and TMW. He is a contributor to the European IAB Interact Congress blog, *Technology Digital* magazine and regular speaker and thought leader in digital industry events and publications. Websites: http://about.me/nicholasgill; http://www.doner.co.uk/

Brand rights

3.4

Name? Logo? Domain? Maggie Ramage, outgoing President of the Institute of Trade Mark Attorneys (ITMA), discusses how to make sure you have secured the rights in your brand

New businesses are the core of economic regeneration at a time when growth has stagnated; unemployment constantly rising; bank rates hovering at a consistently low level and recession the buzzword of the final years of the first decade of the twenty-first century. If we are to avoid recession being the keyword of the second decade, we need to look at ways in which new businesses can thrive and how they can grow. Trade mark protection is an essential factor in the success of businesses.

In this chapter I suggest that one of the building blocks for success is developing and maintaining a good trade mark strategy and avoiding some of the common pitfalls that hit new businesses all too frequently; I offer guidance on how business can take their products and services to a wider audience with a little help from their professional friends.

I will not name names, but much of this article derives from experiences gained from speaking to start-ups and new businesses that seek advice through the various free business advice events in which my Institute, ITMA – the Institute of Trade Mark Attorneys – is an active partner.

Business people attend these exhibitions and seminars because they need to know more about running their businesses. Many attend because they need to know about VAT, employment issues and health and safety, but they are often surprised that there are a whole range of issues that affect them, but of which they are unaware. Trade marks fall into this category.

Most people start new businesses because they believe they have a product or service that they think is going to make them money. Some may start new businesses because they believe they are contributing to the greater good of mankind. But what they all must do is to be business minded and, if they are to survive and prosper, they must follow sound business practice, and this includes making sure that they get things right in the way of trade marks. If trade mark protection is overlooked, this can be very expensive for a business.

The most common misconception from new business people is that they think that once they have set up a company and registered it with Companies House, they can merrily go off into the marketplace and trade under that name. This is a huge mistake and can put a new company out of business before it has even started trading. This may sound dramatic but it happens all too frequently. However, it can be avoided with relative ease and is the first point I wish to address.

There are certain legal requirements as to why new businesses need to register their company names at Companies House. However, this does not necessarily prevent others from using that name in the marketplace, nor does it guarantee that they are free to use that name if others already own or use the name, which may not even be the registered company name. The key register to check to see if a business can use a particular name for its goods or services is the Trade Marks Register. In fact, while many company names may appear on the Trade Marks Register, the most important marks on the Register belong to individual products or services deriving from that company.

So, let's start with some basic facts. The prime purpose of a trade mark is to distinguish the goods or services of one business from the goods or services of others in the marketplace. It is a badge not only of origin, but also of quality of goods or services. To do this, the trade mark needs to be different from any other mark used in respect of the same or similar goods or services. It can take a variety of forms, including a word (for example VIRGIN), a slogan (Just Do It), a logo (Esso's tiger), a jingle (*Air on a G String* to advertise Hamlet cigars), a colour (the purple colour of Cadbury's chocolate packs), a shape (Dimple Whisky bottles), letters (BP, MTV), a number (No 5 for perfume), or a personal name (Walkers).

To avoid any conflict, searches should be conducted to determine what marks are already on the Trade Marks Register and whether or not your proposed mark is safe to adopt and use within the marketplace without fear of infringing existing marks. Failure to carry out these searches could result in having to rethink your entire marketing strategy, redesigning all your promotional literature and packaging materials and starting again from scratch – not the most auspicious way to start a new venture and certainly not a cost-effective way to begin! It could even lead to your having to pay damages to the owner of the earlier trade mark you may have unwittingly infringed.

It is possible to conduct identical searches yourself by examining the UK Register and the Community Register online via the websites www.ipo.gov.uk and www.oami.eu.int. However, those online searches are limited. They do not search for phonetically similar marks, nor do they search for what may be deemed confusingly similar marks. They do not guarantee that the mark is free to use or whether it can be registered. That is a skilled undertaking and is really best undertaken by professionals.

This is where ITMA comes in. ITMA members are taught and examined on all the necessary skills. They maintain their professional knowledge through a thorough programme of continuing professional development, and constantly update their professional skills and knowledge of trade mark practice and procedures.

Although it is possible to apply to register trade marks without using the services of a trade mark attorney, trade mark attorneys can undertake the whole process for you. This involves completing forms from the Trade Marks Registry, part of the IPO (the Intellectual Property Office, formerly known as the Patent Office), which give details of the applicant together with a representation of the mark and defining the class or classes for which the trade mark is to be registered.

There are 45 different classes in the UK and it may be necessary to file for more than one class depending on the goods or services in question. The number of classes will determine the fees to be paid to the Registry, currently £200 for the first class and

£50 for each additional class. In addition there are, of course, the fees to be paid to your trade mark attorney. Trade mark attorney charges vary, which is why you will need to talk to individual firms for more detail.

The Registry then examines the application to ensure that it meets the requirements of the Trade Marks Act. Once the Registry is satisfied that the application can proceed, the Registry publishes the application in a weekly *Trade Marks Journal* so that interested parties may learn of the application and may, if they so wish, lodge an opposition. They have two months in which to do this, which may be extended by one month only.

If no oppositions are received, the Registry will enter the mark on the Trade Marks Register and will issue you with a certificate. If there are oppositions, your trade mark attorney will endeavour to resolve them and will represent you at Hearings conducted by officials of the Registry.

Assuming all goes well and you receive your registration certificate, your mark will remain validly on the Register provided it is in use and the renewal fees have been paid. The mark remains on the Register indefinitely subject to these requirements. The renewal fees are due for payment every 10 years. Indeed, Trade Mark No 1, the Bass Triangle Label for beer, is still alive, dating back to 1876.

The major benefit of registering trade marks is that if anyone uses a mark which is similar to yours, it is relatively easy to take action since you will have a registration certificate that shows you as the owner of the registered trade mark. Without registration, businesses have to rely on common law rights which are far more costly to enforce since they entail demonstrating a) a reputation in the mark in question, b) that the infringing mark has damaged that reputation and c) quantifying that damage. Although, of course, every case would be determined on its merits, the reality is that to develop a reputation the business would likely have to have been in operation for some time, perhaps several years, or to have acquired reputation from massive advertising which may, in itself, have attracted an infringement action.

As trade marks are territorial, most new businesses will initially consider applying for a UK trade mark, the application process for which is outlined above. If a company wants to move into Europe, or even if the company sees itself in Europe in the first few years of existence, it may be appropriate to apply for a Community Trade Mark (CTM) which gives trade mark protection in all 27 member states and which automatically extends to new members as and when they join the EU. The CTM application process is broadly similar to UK application but the relevant office (OHIM) is located in Alicante, Spain.

Again a trade mark attorney (and most UK trade mark attorneys are qualified to act before OHIM) can handle the whole process and, should the business expand to other territories, trade mark attorneys can apply for trade mark protection in overseas territories through an international registration system called the Madrid Protocol, which is run by the World Intellectual Property Organization (WIPO) based in Switzerland. They can also secure registrations in other countries which have not signed up to the Madrid Protocol through international colleagues, some of whom are members of ITMA. Most UK attorneys have a strong network of colleagues all around the world.

So with trade mark protection in place at home and abroad, what else should new and growing businesses consider? Staying on the subject of trade marks, the main consideration has to be on the subject of domain names.

Domain names create a unique address which allows a computer to distinguish one address from millions of others connected to the internet. No two organizations can have the same domain name. Internet users have the right to expect that a domain name which consists of a trade mark in use commercially is associated with the owner of the trade mark. There have been some court cases because, as domain names are sold on a first come first served basis, it is often the case that someone who does not have the legal right to own that domain acquires it, perhaps with the hopeful view that they can sell it back to the rightful owner of the trade mark. Trade mark attorneys can advise on such disputes.

There are a couple of other points to note. Firstly, trade mark registration would normally be paramount over domain registrations, so if a company owns a particular trade mark, that is normally the starting base for recovery of a similar domain name. Secondly, it is important that domain names are renewed automatically because if a domain name is inadvertently allowed to lapse it cannot be restored to record, unlike a trade mark registration.

One of the other services that trade mark attorneys can offer is a watching service. This may cover trade marks alone but can extend to a domain name watch. This can prove invaluable to see who else is out there, perhaps active with the same or similar elements. It also enables trade mark attorneys to start speedy proceedings for recovery of trade marks or domain names which have been registered in contravention of clients' rights.

It is essential to protect your trade mark and domain names, and to ignore this as an important business advantage can be a very expensive business mistake.

Maggie Ramage is the immediate past president of ITMA finishing her term in April 2012. She is a UK trade mark attorney and a European trade mark attorney. She is also a member of INTA, ECTA and MARQUES. Maggie has worked for the California-based Raychem Corporation and was seconded to San Francisco in 1987. She then worked for what was Beecham Group (now part of GlaxoSmithKline), before moving to British Telecommunications. Maggie became a partner in Surrey-based Alexander Ramage Associates in 1991.

A full UK listing of trade mark attorneys in the UK is on ITMA's website www.itma.org.uk and the front page includes a box 'Find a Local Trade Mark Expert'.

PART FOUR
People and performance

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Improving profit and efficiency

4.1

Valerie Todd, Director of Talent and Resources at Crossrail and Chair of Investors in People, gives SMEs some top tips on boosting profit and efficiency through people

With the pundits agreeing that the country's economic woes are likely to ease this year, all eyes are on SMEs. These 'engines of growth' are seen as the green shoots that will spur the rest of the economy to bloom. Of course, many SMEs were driving growth through their championing of innovation and creativity long before the recession started to bite, but now may be the time to dust off the business plan and become more ambitious. To ensure that you continue to shine, take note of the following six tips, derived from the Investors in People framework and guaranteed to boost your profits and efficiency through your people.

1. Ensure a clear vision

Get together with your people to do this. Only 5 per cent of employees understand their company's vision. How motivated do you think they will be to contribute towards their organization's goals if they are unsure of what these goals are? Work with them to build a compelling vision and business plan. Ask what they think key priorities or new challenges should be, and share your thoughts with them.

You can do this by holding Q&A sessions, workshops, away days or just chatting! Creating a vision and business plan with your people will build enthusiasm, shared responsibility and common purpose, and help them align their activities and effort with the company's goals.

2. Work on strategy

Make sure you have a good strategy in place. This includes, crucially, your people strategy. You should sit down and think about how many people you need and what skills and experience are required to deliver your company's goals. Equally important is recognizing how efficiently your people are working, and any problems that are getting in the way of progress. If these problems can be fixed, go ahead; if not, make a note, go back and revise your strategy. In both cases, work with your people to find a solution.

Setting and communicating a clear vision and strategy so that you and your people know where the company is heading and what role they will be playing is key – and the more you can involve them, the better.

CASE STUDY Trinity Conferences

Jacqui Kavanagh's 23-strong team found that sitting down and planning their future strategy eventually led to sales increasing by more than 30 per cent on pre-bookings for the next two years. This is because being able to predict future scenarios and thinking about the bigger picture helped the team to become more agile, and more comfortable when responding to new situations. Jacqui believes planning to be particularly important for small companies – 'otherwise they are just too busy trying to keep the wolf from the door'.

3. Strengthen leadership

To bring the best out of your people you will need to demonstrate strong leadership. This means creating a 'strategic narrative' that they can commit to and buy into, as above. Turn your business plan into a story, with a beginning, a middle and an end. Make sure everyone knows what your story is, and where you're heading.

But keep in mind that leadership is in the detail as well as the big picture. Lead by example. If you expect your team to stay late, you should too. Make it personal and show you care about their well-being. Saying 'good morning', 'good night' and spending some time chatting about the family may seem insignificant but will make the world of difference if it ensures a happy team.

4. Focus on managers

Good leadership also involves focusing on your managers: they need consistent support. Make your expectations of them clear and provide them with the training and development they need. This is important because managers provide the link between individual behaviours and organizational goals. They are in charge of ensuring that the right people are in the right roles; goals and objectives are clearly communicated; effort is rewarded and opportunities for development are provided. Moreover, the extent to which managers listen to and value ideas will drive engagement.

Without the right leadership and management structures in place, all else will fail. Be a strong leader, and make sure you have strong managers.

CASE STUDY Geoplan

A lot of small business owners get dragged down by the fact that they never wanted to manage people in the first place. This was John Taylor's problem. He fixed it by decentralizing the business and getting away from a management structure that put everyone, but especially himself, under huge pressure. The business became increasingly self-managed and anyone could lead a project. In 2011, Geoplan made a profit of £400,000 and productivity per head went up. John credits a better understanding and implementation of leadership and management structures for this boost.

5. Engage your people

The strong correlation between engagement and the bottom line is well known, and so engagement should be at the top of your to-do list. Empowering and motivating your people by ensuring they have a strong voice is key here. You should build dialogue so that information flows around the company and all communication becomes two-way. This will allow people the chance to give feedback, raise concerns and make suggestions. Involve them in decision making – even routine day-to-day decisions about their own jobs will lend meaning to their roles within the company.

Remember that engagement is, at its core, about transforming working relationships for the mutual benefit of both employers and employees. Don't be afraid to show your people how much they are valued and needed. It will be seen as a sign of strength, not weakness.

Potential incentives

Acknowledge the role of incentives when it comes to boosting morale and engagement – it needn't be costly, and you will certainly reap the benefits. How about:

- flexible hours;
- performance-related bonuses;
- health and well-being programmes;
- proactive approaches to training;
- mentoring;
- team-building days;
- social and networking events;
- free tea and coffee.

6. Think about learning and development

Work with your people, through the management structure if necessary, to ensure that each of your employees has a development plan that contains clear, tangible objectives, along with details of how the company will support these. When people are satisfied that progress is being made towards their career objectives and they have access to learning and development (L&D) opportunities, they are more likely to have higher loyalty and commitment – creating, once again, a virtuous circle. Make the circle even more virtuous by firmly linking L&D opportunities to your business goals.

A good point to keep in mind is that an individual's development doesn't always need to equate to expensive training programmes or internal reshuffles. Employees are increasingly on the hunt for informal opportunities for growth. These can include having an internal mentor, shadowing colleagues across the company, higher-visibility assignments and more challenging tasks.

Five-step action plan for managers to drive L&D

1. Sit down with your people and ask them about:
   - what knowledge, skills and abilities are most critical to their job;
   - their short- and long-term goals – where they want to be in 3, 5 and 10 years;
   - what they think potential obstacles to meeting these goals are.
2. Set up quarterly progress meetings with your people so that you can stay updated on their goals.
3. Think about what development gaps there are within the company between current and desired skills.
4. Assess each employee's training needs and prioritize them, taking into account the company's needs.
5. Communicate and implement the final decisions.

7. Build organizational integrity

Context is everything, and organizational context is an important driver when it comes to your people's productivity and efficiency. Work to create a culture of openness and trust. People who have trust in the company will be more likely to take on challenges, voice opinions and ultimately, offer better contributions. Make recognition a part of company life. This will let your people know that their work is delivering results, and give them a clear path for expanding their abilities.

Finally – trust and recognition collude to foster integrity and pride. If your people are proud to be a part of the company, they will be happy. And if they are happy at work, they will externalize this well-being and drive performance in themselves and others, creating yet another virtuous circle which starts and ends with efficiency and profitability.

CASE STUDY 5E

Funding for not-for-profit training organization 5E dried up, and redundancies were inevitable following a shake-up in the sector. The organization managed to tackle these changes without compromising its values by ensuring a fair and honest approach throughout. As a result, the team's loyalty has been so strong that some of the people who lost their jobs carried on volunteering because they felt valued. They are due to be re-employed by 5E when it is successful in finding new funding.

For more information about how Investors in People can work for you, visit www.investorsinpeople.co.uk

The flexible employer

4.2

How do you retain workforce flexibility in tough trading conditions, asks Clare Gilroy-Scott at Goodman Derrick

In such uncertain economic times, how does the growing business safely expand its operations and recruit and retain the right staff to help it do so? Flexibility in the workforce must be a key consideration for a growing business in order for it to adapt to meet the changing demands of its operations.

There are various ways in which a business can prepare for growth while retaining the ability to contract, if required. Addressing its recruitment policy and its contractual terms with staff will be fundamental considerations, as will a flexible approach to its strategic employment policies.

This chapter will provide an overview of how the business can give itself the greatest flexibility in these ways but with minimal risk, bearing in mind, specifically, the extensive legal rights of workers and employees.

Flexibility in recruitment

Maintaining a flexible policy on recruitment is advisable if the business is cautious about expansion. Atypical working arrangements with some of the workforce can be considered, in addition to the traditional employment model. Options for flexibility include fixed-term contracts, casual workers and agency workers, all of which have their pros and cons in terms of the rights of the worker or employee.

Fixed-term contracts are generally used by businesses in situations where an individual is needed for a specific project or task, or where demand is not clear and the business wants to fill the role on a trial basis. With the change in qualifying period for bringing an unfair dismissal claim rising to two years for those engaged after 1 April 2012, fixed-term contracts are, more than ever, an attractive option for employers. However, fixed-term employees still have protection from less favourable treatment and should not be excluded from the contractual benefits and facilities offered to comparable permanent staff. In addition, the use of one fixed-term contract after another will mean that such employees accumulate two years' continuity of service to give them protection from unfair dismissal, which could invalidate the original purpose behind the fixed term. In effect, a fixed-term contract is only a valid flexible solution for up to two years.

Another option is to engage 'casual' employees until the business has a real sense of its requirements. The essence of the relationship with a true casual worker is the lack of what is called a 'mutuality of obligation' between their engagements, that is, there is no obligation on the employer to offer them work and no obligation on the worker to accept it. If utilizing this option, the business should ensure that the informal arrangement does not become regular and predictable, and avoid any suggestion, between engagements, of any mutuality of obligation. This could allow continuity of employment to build up between engagements and give the 'casual' employee unfair dismissal and other employment rights which rely on a qualifying period of employment.

Agency workers, who can be engaged on a short-term or an open-ended basis, are another flexible staffing option. The true agency worker will not be an employee of either the agency or the hiring business and rights such as unfair dismissal will not be applicable. However, agency workers do have rights applicable to 'workers', including the right to the national minimum wage and paid annual leave, as well as protection from discrimination, among others. In addition, new rights for agency workers were introduced in October 2011; these include the right to the same pay and other basic working conditions as equivalent permanent staff (after a 12-week qualifying period), access to collective facilities, such as canteen, child-care or travel services, and information about employment vacancies (from the first day of the assignment).

The key with each method of engaging staff is to ensure that the wording of the contract reflects the manner of the engagement and that this is consistent with what happens in practice.

Flexibility in contractual terms

Given that business requirements are subject to change, how can the business ensure that it has the flexibility to require staff to work additional hours, carry out other duties, travel on business or work from another location, as may be required? The answer is in the careful drafting of its contractual terms with staff. Without flexible contractual clauses, any change from what has been agreed with the worker may amount to a breach of contract and/or result in a claim for what is known as 'constructive' unfair dismissal.

Although it is sensible to include a contractual clause which expressly says that the employer has the right to change contract terms, it is still a legal requirement that the employer notifies employees of the change in writing at the earliest opportunity and no later than four weeks after the change. More fundamentally, some key terms, such as pay and hours of work, cannot be altered by an employer without the agreement of the employee. However, by retaining some discretion to alter terms in the contract and by following a fair and reasonable procedure to obtain agreement to any such change, the employer will have gone some way towards being able to make any necessary changes safely.

Bonus, benefits and other reward schemes are often essential to attract the highest calibre of worker, but these can be termed as non-contractual and discretionary to permit change as the business evolves. Careful drafting, again, is essential.

Flexibility in policies

Key strategic employment policies in this economic climate must be those relating to restructuring and performance. 'Redundancy' and 'capability' are both potentially fair reasons for dismissal. A further potential fair reason is 'some other substantial reason of a kind such as to justify the dismissal of an employee holding the position which that employee held'. This could encompass dismissals as a result of business restructuring or because employees fail to agree to changes to contractual terms. If a dismissal for one of these reasons is identified, it is essential that the employer follows a fair and reasonable procedure, to minimize risk of claims.

A policy on restructuring need not be written down, but a prudent business, even while growing, will regularly review its operational structure and consider whether job roles and incumbents are suitable, capable and at the right level, to ensure that the demands of the business are being met appropriately by its workforce.

When restructuring, a fair and reasonable procedure will involve the employer's consideration of all the options (with clear evidence of initial preparation); notification and consultation with affected employees prior to any firm decision being made by the business; and the consideration and application of objective selection criteria. If redundancy is possible, the business might consider 'bumping' a potentially redundant employee into the role of a less capable employee who is not at risk, thereby making that employee redundant instead. In addition, an employer must always consider suitable alternative employment for any potentially redundant employee.

With capability issues, employers are often concerned that formal performance-monitoring procedures can seem heavy handed and they worry about the effect on workforce morale. However, this standpoint overlooks the fact that many hard-working employees do not like to support those whom they see as failing to pull their weight, which can be equally damaging to the business.

'Capability' as a fair reason for dismissal is assessed by reference to skill, aptitude, health or any other physical or mental quality. This can include intransigent, inflexible or difficult workers whose shortcomings affect performance and efficiency, or relations with clients and customers, as well as employees who fail to reach the employer's standards and/or targets. The employer will need to be able to demonstrate what steps it took at the very start to minimize the risk of poor performance and to create conditions that would allow its employees to carry out their duties satisfactorily. However, health issues need to be addressed very carefully and legal advice ought to be taken first to avoid the various risks of resulting claims.

Clear policies on training, support and supervision are essential, particularly when promoting staff from within the organization, to encourage retention of quality staff. Employers will also need to think about their systems for assessing performance, perhaps by means of an appraisal system and targets, so that clear evidence of poor performance will be accessible and to ensure consistency of treatment.

A proper performance management process should include the following basic steps: an investigation and appraisal of the individual's performance; warning of the consequences of failing to improve; and providing the individual with a reasonable opportunity to improve. If the business believes that it may eventually dismiss an

individual because of poor performance, it must also follow the ACAS Code of Practice on Disciplinary and Grievance Procedures, as a minimum.

Having successful policies on staff structure and performance will mean that issues can be identified and addressed at an early stage. This, along with a flexible approach to recruitment and well-drafted contracts, will give employers the greatest possible flexibility to deal with evolving business requirements.

Clare Gilroy-Scott is a senior solicitor in the Employment Department at Goodman Derrick LLP in London. Goodman Derrick is a dynamic law firm with a broadly based commercial practice, representing both UK and international clients. The firm has developed an acknowledged expertise in the areas of media law, corporate and commercial law, litigation, property, employment and private client. Clare can be contacted by telephone: 0207 404 0606 or by e-mail: *cgilroy-scott@gdlaw.co.uk*. For further information about the firm, please visit its website www.gdlaw.co.uk

Talent for SMEs

4.3

Access skills and expertise from a university as required? Anne Milligan at The University of Manchester explains how careers offices are ready to put the right candidates in place for you

There was a time when small business owners believed that universities had little to offer them in terms of developing their business. In the past, universities have been better known for their work with corporates, helping them to recruit large numbers of graduates through the 'milkround' system.

Much has changed over the past 10 years; universities have become more responsive to business needs, especially to those of small businesses, and are 'open for business' all year round, not just during term times. They have also become more aware of their local and regional marketplace as a source of opportunities for their students and graduates. This is added to by the fact that in some localities, such as Manchester, a higher proportion of graduates wish to remain in the city once they have graduated, creating an increased demand for local opportunities to get graduates started on their career path. Such opportunities are therefore more likely to be within the small business community. While getting a place on a graduate training scheme continues to be the ultimate goal for many final-year students, there is also a growth in demand for opportunities outside the graduate schemes for those seeking a career that will often give them greater responsibility much earlier on or perhaps a greater work–life balance – a factor which is becoming increasingly important to today's graduates.

Accessing talent

As the saying goes, 'people buy people'. Everyone knows that a successful business is as much about the people that make it happen as the product or service that it sells. Everyone also knows that reaching the right people at the right time can be time-consuming and expensive.

The majority of universities provide a year-round, free vacancy advertising service. Plus they can respond to immediate hire requests and are more than happy to provide advice and guidance to small business recruiters on how to create a pipeline to access student and graduate talent, ensuring that the right level of skill and expertise is targeted. Hence recruitment can be fairly inexpensive and less time-consuming.

Having made the decision to recruit via their local university, what many struggle with is how to get in, who is the right person to speak to? While over the years

universities have become more business friendly and actively seek interaction, there is still a long way to go to make it easy for businesses.

Most universities will have a business engagement or business development team, normally dedicated to developing knowledge transfer or research proposals with businesses. However, it is traditionally the university's Careers Service that carries the mantle of working with businesses seeking to recruit. Discard old images of seeing a school careers adviser at the age of 12 for a 15-minute discussion about becoming a bus driver or an accountant; careers services in universities are much more sophisticated. Often responsible for organizing huge exhibition-like careers fairs and hundreds of on-campus presentations and workshops, careers services also provide recruitment services to a whole range of organizations – including small businesses. Type in 'careers' into any university's search box on its home page and you should find your way there. Careers-based employer liaison staff will understand the challenges faced by small businesses, often unable to plan or anticipate recruitment needs. Vacancies can be advertised at any time of the year, with advice being provided on likely applicant responses accordingly.

Today's students do not differ too much from days of old; they still look for part-time work to earn while they learn. The emphasis nowadays is to help pay fees and get that all-important work experience for their CV and enhance their employability skills as much as for liquid refreshments. Similarly, graduates are still looking for a great job to start their career – but often have other plans and hence will look for more flexible options. This could be to get a short internship or work experience before they go travelling or decide to undertake further study, for example.

So, what are the options for a small business considering accessing student talent from its local university?

- **For part-time work**: Students can work up to a maximum of 15 hours during term time and often look for work that will develop their skills by undertaking customer service or administration roles, subject-specific work such as marketing as well as the traditional bar work and waiting. They would expect to be paid at least the minimum wage and normally are quite flexible in terms of when they work; weekends and evening work are options.
- **Vacation work**: Most students will want to undertake some kind of work during their summer vacation when they can work full-time. Hence for a period of around three months they can be employed in project work, cover for staff absences or provide holiday cover.
- **Placements or a 'sandwich' year**: A wide variety of degree courses in business, science and engineering subjects include a one-year placement. The year will be the third of a four-year course, running from summer to summer, providing an excellent opportunity for a student to get some real-life work experience. For businesses it acts as a one-year interview period and while it is a salaried year, it tends to be at a lower rate than recruiting a graduate, providing a cost-effective way to spot talent and bring new skills or insights into the organization. A placement year is ideal for roles that need a bright spark to deliver but really only has a one-year lifespan before it becomes too routine. As the student will often be required to undertake some academic work while

on placement, this often presents a project opportunity for the company in addition to the delivery of the role. Roles that fit quite well into this model include anything that will be an assistant, for example a Marketing assistant, HR assistant, Operations assistant and so on. One thing to bear in mind is that these students will just have two years' study behind them, so their subject knowledge will not be quite as deep as you would expect from a new graduate.

Most students will have engaged in at least one of the above activities and will be relatively work-ready as they enter the graduate market. Your graduate recruitment options are:

- **Graduate recruitment**: Businesses recruiting a graduate are usually seeking to fill a full-time, permanent or longer-term position requiring the incumbent to have a more in-depth knowledge of their subject, possibly with exemptions from professional exams (ICAEW ACA, CIMA, CIPD, CIM, CIPS etc) too. Some graduates may come with placement-year experience (as indicated above) and hence are even more commercially focused. The range of degree courses is so wide that recruiters are encouraged to look beyond the degree subject at the graduate's work experience and their transferable skills rather than focus on the topic of the degree – unless of course you are recruiting an accountant or engineer! The graduate's Higher Education Record of Achievement (HEAR) will help with this.
- **Internships**: This is a term that is now more widely used in the UK but many recruiters are still unsure what it means. Generally it encompasses a short spell of paid work experience, usually as a new graduate. The length of an internship can vary greatly from a few weeks through to a whole year. Internships present another way for businesses to 'try before you buy' and are ideal for those unused to recruiting graduates or just need some extra resource for a short spell. Internships are another cost-effective way of getting graduate-level skills into a small business as salaries are often below the usual starting salaries for graduates.

And more ways to access talent:

- **Course projects**: The inclusion of a live case study or project can be a feature of some degree courses and, for businesses providing the topic, little or no financial outlay. Examples include Master's-level students undertaking strategically focused research during their summer vacation through to history students planning a marketing campaign for a charity over a six-week period as part of their careers module. This is a useful option for businesses if projects are not mission-critical as they will occur at specific times in the academic timetable, but the element of choice means there is a chance that your project might not get chosen.
- **MBA consultancy projects**: The opportunity to get MBA-level skills and expertise into your business is often attractive but will usually come with a cost attached. Again, these projects will need to happen at specific times of the year to fit with academic requirements, but may be worth investigating if you have some strategic issues that need addressing, new markets to research or are

looking for some fresh thinking on old problems. Approach your local business school, identify the MBA course leader (normally found on the website) and drop them a line – they would be pleased to hear from you.

Therefore there are a variety of ways that small businesses can access talent from universities at whatever time of the year the need arises. The best starting point is to approach your local university's Careers Service, especially anyone in an employer liaison role. They'll be happy to work with you, will help you define your needs, give you advice on the most appropriate service or route to recruit and there will be a free vacancy advertising service that you can use.

Anne Milligan leads the small business team in the Careers and Employability Division at The University of Manchester, one of the universities in the UK most targeted by graduate recruiters. The Careers and Employability Division assists thousands of recruiters every year in their search for student and graduate talent, a large proportion of which are small businesses who can access an experienced and dedicated team of SME recruitment advisers. Tel: 0161 275 4041; e-mail: anne.milligan@manchester.ac.uk; website: www.manchester.ac.uk/careers

Employee rewards

4.4

Andrew Walker at Croner discusses the processes for setting and managing salaries in a growing company

There are many challenges that small companies face every day and although not necessarily the most obvious, or even the most seemingly pressing, managing the reward of all employees is just one such challenge.

For many larger private sector businesses, the ability to position themselves as an 'employer of choice' or to 'win the war for talent' is a vital part of their employer brand. In turn that brand strength can give a little more flexibility in how reward mechanisms are created and delivered; allied to this, the sheer attraction for many employees of being part of a large, hopefully stable and successful business can be enough to guarantee that these businesses have a ready source of willing candidates, both internal and external, to ensure that the future is bright.

Somewhat paradoxically, and at the other end of the spectrum, many charitable organizations benefit from the desire of existing and prospective employees to align themselves with a cause and to some degree this offsets the need to feel that reward plays a major part in the 'contract' between employer and employee. While there is evidently a need for employees to be fairly paid for their work, there is often less focus on the more creative or generous forms of reward that can exist in the commercial sector.

What then of the small, growing business? These are often not able to offer the kind of creative and often very attractive rewards associated with large businesses; neither are they (or their staff) charity cases.

Before we tackle the question itself, it seems sensible to consider the concept of reward in its broadest sense; if we think about what reward is designed to achieve and how it supports a business, we can start to apply some of that thinking to the growing/entrepreneurial business.

What is reward?

So first, in a very direct way, I want to try to encapsulate the difficulty we all face in attempting to define this topic. What do we mean by reward?

As a starting point, let's consider what an employer is trying to achieve with any form or reward. Usually, at its most basic level, any form of reward is designed to aid the employer in recruiting and retaining the key skills needed to deliver the overall purpose of the organization.

To do this, the reward mechanisms need to ensure that they respond both to the requisite skills themselves and also to the outputs or contribution that these skills make when exercised correctly. In simple terms, all employers use reward to value the skills they need to get the job done.

At a very simple level, therefore, an employer is defining what skills it would like its employees to have (competencies are an example of this), defining how it would like these skills to be used (here we are looking at objectives) and then making a statement about what the employee can expect in return for using the skills to deliver the outputs.

Implicitly, there is of course always an underlying statement that an employer does not expect to deliver its half of the bargain if the employee falls short of achieving their commitments.

Now this is something of a broad-brush description; of course, employers will bring into their organization people who don't have all of the skills and then help develop these to underpin their own overall needs. As an example, this is something we see often in the charity world, where this is a fairly common mechanism for balancing cost management while delivering the organizational outputs.

Likewise, most employers will help existing staff who have the requisite basic skills to complete a job but who then might need some support to deliver the required outputs or to step up into a new role.

This kind of development and support will not just focus necessarily on the hard skills needed to do a particular job. Plenty of employers now realize the value of developing the right behaviours as much as ensuring that people have the right technical skill set.

But overall, the process of reward is one whereby the employer and employees enter into an agreement, a kind of implicit contract which focuses on the following areas:

- The employer seeks to recruit and retain employees with the right skills and/or abilities.
- The employer then invests either time, money or both into ensuring that the employee continues to have the right skills and the employee commits to using these skills to deliver the required outputs.
- The right objectives are agreed; these are ones where the employer clearly articulates what objectives it is striving to meet and the employee in return makes commitments on what they will contribute in order to do their part in achieving these goals.
- Those employers who are really tuned in to this process also at this point help the employee understand not just *what* is required, but *how* the objectives can be met. This can be done by setting standards, or giving examples of how a particular task or activity will contribute to the end result. Many employers simply fail to give enough time to this part of the process, meaning that employees know what is required but don't have a clear picture of how to get there.
- Finally, assuming that the employee delivers, then they should have a clear picture of what they can expect by way of reward – whether in the form of cash or not.

Up to this point, the process can be broadly the same irrespective of the size and type of organization concerned. If you are a leader in any sector, the basic principles of setting a course and then supporting your team to achieve this are much the same.

But what if you run a small, growing business? How do you get the best out of these mechanisms?

The growing company

Well, in truth, the basics described above don't really change. The key differentiators between an established business and a growing business centre around the timings of when and how reward is managed.

Whereas larger, established businesses have defined mechanisms, structures and pay policies, in a growing company these niceties might have to be somewhat more relaxed to give flexibility at both the recruitment and the day-to-day management stages. A word of caution, though: don't forget that there are some statutory obligations that an employer has in relation to paying staff and these must not be put aside under any circumstances.

But as a general example of how the above works in a growing business, when seeking to appoint a new addition to your team, finances might dictate that the starting salary is perhaps not up to the full market rate; in exchange, though, today's new starter might be tomorrow's manager or even director so it's clear that there may be a consequential trade-off between today's pay and tomorrow's opportunity. To put it bluntly, an element of 'jam tomorrow' might be perfectly appropriate.

And one last thing to bear in mind: in all of the above, communication is so vital, never more so than in the small, fast-moving, tightly knit and focused team which is so often the most striking feature of growing, entrepreneurial businesses.

Andrew Walker, Head of Business Development at Croner, has 20+ years' experience in human resources consulting, the last 15 of which have been in the pay and benefits field. Having worked for both 'boutique' and blue-chip organizations across a range of HR disciplines, Andrew has a very broad-based background on which to draw. Because of his background in pay and benefits Andrew also works closely with the team in Croner's reward business in the UK.

Andrew is an accomplished public speaker and has presented at Institute of Directors (IoD) and Confederation of British Industry (CBI) conferences on a variety of executive and non-executive remuneration topics. He has been a member of the judging panel for the Corporate Research Foundation (CRF) publication 'Britain's Top Employers' since 2005. Further details: tel: 01455 897194 e-mail: Andrew.walker@wolterskluwer.co.uk

Managing pension scheme risk: a guide to trustee liability insurance

Trustees have an increasingly difficult job to do. The Pensions Act 2004 increased the legislative burden on trustees, giving the Regulator wide-ranging powers if schemes are not being managed appropriately, and various Codes of Practice have also been issued by the Regulator. As can be seen, therefore, the responsibilities of a trustee are onerous; this is also borne out by claims experience which demonstrates that errors can occur even in the best managed schemes, particularly in the increasingly dominant environment of defined contribution schemes.

The issue of protecting trustees from liabilities has also become particularly topical following the various headlines reporting the liability of trustees, including the cases involving the incorrect authorization of unsecured loans to sponsoring employers. As intended, the Pensions Ombudsman's Office does provide members with an easily accessible forum to pursue any disputes.

Liability for breach of trust is a personal liability and a trustee is liable to both the scheme beneficiaries and the scheme creditors. A trustee is liable on a joint and several basis, which means that a trustee can be liable for a breach of trust committed by another trustee. Professional advice should be sought when appropriate, and failure to do so may in itself be held to be a breach of trust. If trustees are uncertain as to how to exercise their powers, they can also apply to the court for directions. The risk is potentially greater after a winding up, where there may be missing beneficiaries or other contingent liabilities and no assets. A trustee or trustee director is also potentially at risk of having to pay a civil fine for breach of pensions legislation. Fines for individuals range up to £5,000 and for corporate trustees £50,000. However, it should be appreciated that even in the event that a trustee is not personally liable, there may be potential losses to the scheme itself as a result of the decisions taken.

Limited protection: exoneration and indemnity clauses

Many trustees will have the benefit of clauses within the trust deed and rules exonerating them from liability, and, in many instances, an indemnity may be given by the scheme or the sponsoring employer company. However, it is not always appreciated that such clauses are subject to

statutory limits. For example, an exoneration or indemnity from the fund cannot operate for any breach of trust relating to investments and it is also prohibited for the scheme to indemnify trustees for civil fines and penalties. It should also be appreciated that an indemnity from the employer would be of no value upon an insolvency when the trustees are still having to manage the scheme.

Exoneration clauses are also subject to several other limitations, including not affording protection from claims involving third parties, and they will always be construed restrictively by the courts. In addition, the problem with relying purely on exoneration and indemnity provisions is that they merely transfer any liability between the trustees, the beneficiaries and the employer. More importantly, why should a pension member, who has a valid claim, be defeated by a legal technicality, ie an exoneration clause? In today's environment, trustees do not usually wish to 'hide' behind exoneration clauses when facing such claims.

Wider protection: insurance

In these circumstances, insurance is playing an increasingly important role in protecting trustees and pension scheme assets. It provides an external resource of protection and should stand in front of such indemnity and exoneration clauses. The purchase of a properly drafted and comprehensive insurance policy can be a cost-effective means of protecting members' benefits, individual trustees, the sponsoring employer, pension managers and internal administrators from losses resulting from claims, be they well founded or not. The extent of cover varies from policy to policy and should be reviewed carefully, as subtle differences in policy wording can limit the cover available. For example, some insurers do not cover the scheme for its loss where the trustees are exonerated from their breach of trust; also, the definition of 'wrongful act' in policies can appear very similar but can vary widely in the scope of cover provided. However, it is not always appreciated that these types of insurance policies operate on a 'claims made' basis. This means that the insurer will indemnify for any claim falling within the scope of the policy which is made against the insured during the policy period – usually 12 months – irrespective of when the event giving rise to the claim occurred. It is important to note, however, that an insurer will always review carefully, in these circumstances, whether there was full disclosure either on original inception of the policy or upon renewal.

If the decision is taken to adopt insurance, however, it is important to have a policy specifically designed to respond to the needs of trustees and other individuals involved in the management of pensions. This is highlighted by the potential conflicts of interest which commonly exist when a trustee is also a director of the sponsoring employer company, with duties to the company and its shareholders. As a trustee, however, there is an overriding duty owed to the scheme beneficiaries, which is paramount. Accordingly, it is not recommended that reliance be placed upon a Directors and Officers (D&O) policy of insurance as the cover will not be tailored to meet the specialized circumstances relating to pensions and potentially there will be competing calls on the policy. Furthermore, D&O policies will often contain an exclusion for any acts or omissions while acting as a trustee or administrator of the pension scheme.

Retired trustees

A trustee's personal exposure does not cease when they retire and their post-retirement situation may make them particularly vulnerable. Problems in pensions often take a considerable time after the event to materialize. In pensions, the limitation period of 6 years is not necessarily the norm and in some cases may be 12 or even 15 years. Also, the time period may not start running until the facts upon which a claim is based have been identified or, for example, from the date of a member's retirement. In general, the Pension Ombudsman's jurisdiction is limited to claims arising in the last three years, although there is no restriction to the Ombudsman taking a claim relating to a much earlier period, as has happened in several instances. A claimant may also attempt to identify a subsequent failure to remedy a deficiency which, if successful, would restart the limitation period from the date of that subsequent failure. Accordingly, there may be difficulties in defending a claim solely on the grounds of limitation.

It is important, therefore, to check that the position of retired trustees and pension managers is properly protected. The solution is for trustees who retire before the end of the policy period to have the guarantee of cover in the event that the scheme ceases to be insured. They can then rest assured that they have cover personal to them, irrespective of what the employer or trustees have done, or not done, about insurance since they retired. It is again important to check the extent of cover provided in this respect as policies do vary: from lifetime at one extreme to 12 months at the other. (OPDU Elite provides lifetime cover from the date of expiry of the main policy of insurance, thus giving valuable peace of mind.)

What should be covered?

The following is a guide to the main headings of cover which can be included:

Errors and omissions
Damages, judgements, settlements
Regulatory civil fines and penalties
Ombudsman awards
Defence costs
Full severability of cover
Individual representation
Maladministration
Public relation expenses
Extradition proceedings/bail bond costs
Prosecution costs
Employer indemnities
Exonerated losses
Litigation costs
Retirement cover – lifetime
Costs re investigations by regulatory authorities
Media & arbitration
Court application costs
Third-party provider pursuit costs
Emergency costs

Court applications

Trustees and pension schemes can also incur significant legal expense in going to court to seek directions or if they are joined by another party who is seeking the court's directions. Insurance can be obtained to cover these expenses, which do not necessarily involve a legal liability upon

the trustees, but the scheme will usually be responsible for the legal expenses of all the parties involved. There have been several high-profile cases involving costs in excess of £1 million which have had to be met from pension scheme funds. (OPDU Elite provides an extension to reimburse such costs – it is important to note that this type of legal expense would not usually fall within the scope of 'defence costs' as defined in many insurance policies.)

Wind up

Separate discontinuance and 'run off' policies of insurance can be purchased to protect trustees once a scheme has wound up. Cover can be provided to protect trustees against loss for liability or defence costs arising from breaches of trust while the scheme was ongoing. Another relevant consideration is that there may be missing or overlooked beneficiaries who surface when all the assets of the scheme have been distributed.

Claims experience

OPDU's own claims experience has seen issues which have involved individual claim sums of up to £20 million to date. One common feature is, as one would anticipate, the importance of the accuracy of data and we encourage trustees therefore to ensure that regular data health checks are undertaken. Other issues which have given rise to problems and potential liabilities include: incorrect formulas used for calculating benefits; interpretation of Trust Deeds; overpayment of benefits; misapplication of Scheme Rules; seeking court directions; early retirement and ill-health disputes; rectification proceedings; accounting irregularities; DC choices of investment funds; Pension Sharing Orders; general administration errors; Transfer of Undertakings (Protection of Employment) (TUPE) issues; misrepresentations by trustees; transfer values; incorrect quotations; discrepancies between scheme documentation and administration practice; delays in transfer and payments of benefit assets; and Pension Protection Fund (PPF) levy issues.

In particular, we are seeing an increase in matters relating to investment issues. As noted above, it is not possible for a scheme's rules to excuse a trustee from personal liability in respect of the discharge of their investment duties. Importantly, investment issues for pension schemes have become much more complex and diverse. Classes of assets have widened and investment strategies have become more intricate, with trustees making decisions relating to matters such as hedges, swaps and buy-ins. These factors have increased the potential for claims.

In addition, the conversion from defined benefit schemes to defined contribution schemes has also continued. This has generally meant potentially lower benefits under new schemes, which has also given rise to closer scrutiny from members and trade unions with more issues arising for trustees to deal with as a result.

Cost

The cost of trustee liability insurance varies according to the size of the scheme but is also dependent on several other factors. However, the cost starts at a few thousand pounds for a small scheme and it should be easy obtain an approximate indication of cost for any size of scheme without having to complete a full application.

Conclusion

By taking out insurance, trustees can be confident that they have protection against the liabilities that might arise in performing their duties while also giving members comfort that their interests are being looked after properly in preserving the fund assets, which is particularly important today when deficits are common.

Jonathan Bull is Executive Director of the Occupational Pensions Defence Union (OPDU). He helped establish OPDU in 1997 with the assistance of a group of independent professionals and representatives from pension schemes. OPDU protects pension funds by providing unique insurance cover and services to trustees and sponsoring employers for their liabilities. OPDU is managed by Thomas Miller & Co Ltd (specialist providers of insurance and risk management services since 1885). Jonathan is a lawyer with 30 years' experience in insurance; a member of the Law Society, PMI, PRAG, NAPF and a trustee of the Pensions Archive Trust; a frequent conference speaker and contributor to pension journals. Pension schemes holding total combined assets in excess of £180 billion have joined OPDU. Further details: e-mail: Jonathan.bull@opdu.com; website: www.opdu.com

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PART FIVE
Cash flow, working capital and cost control

Preventing slow payments

5.1

Gordon Skaljak at Graydon UK discusses 10 ways to improve cash collection

Slow payments are a persistent problem for small and medium-sized businesses in the UK. As cash flow is an essential ingredient for business success, it is vital that a business does everything it can to collect cash from customers on time.

While the government has announced that the recent EU Late Payments Directive, which standardizes 30-day payment times, will be fast-tracked, to be implemented in 2012, it is unclear whether this is enough to reduce late payment. Worryingly, almost half of businesses predict that the impact of late payments could inhibit the ability to invest in people and services.

The current eurozone crisis has also adversely impacted consumer and business confidence, resulting in reduced sales revenue flow for many firms as customers tighten their purse strings. Not only is there a problem with those companies that are unwilling to pay, but businesses also have a growing problem with customers who cannot pay because of their poor financial condition. Unfortunately, it's also true that smaller businesses will probably suffer most from this. That's because many bigger organizations force smaller suppliers into accepting slower payments or demanding discounts for prompt payment, in the knowledge that the smaller supplier is so grateful for the business that it will turn a blind eye to late invoice settlements or unwarranted demands. Most growing companies cannot afford to employ a professional credit manager either, who would normally have a range of tricks and skills to get the cash in on time.

It is now more important than ever for businesses to put safeguards in place against slow-paying customers. There are a number of positive steps that can be taken to minimize the impact of late payments, or even avoid them altogether.

General principles

The Late Payment of Commercial Debts (Interest) Act of 1998 gives small businesses the right to charge debtors interest on overdue payments. Take note: any perceived lack of interest or urgency by a supplier in getting paid will be seen as weakness by the slow payer, and that would mean outstanding invoices going to the bottom of the finance department's in-tray. So be polite but assertive in asking for what you want.

Spread your risk. There are countless tales of smaller companies going to the wall because a large customer accounting for a disproportionate amount of sales turnover did not pay up on time.

Here are 10 more ways to improve cash collection:

1. *Sign your customer up*. Ensure that your company has got a signed contract with the customer that clearly states your payment terms. These terms should also be clearly described on your application forms and the invoices you subsequently send out.

   Be sure they know what the credit terms are, whether you offer discounts for prompt payments or bulk purchases, whether additional costs are payable (eg VAT or carriage costs), and whether you charge interest on overdue accounts (all businesses are legally entitled to do this).

   If a customer tries to unilaterally impose its payment terms on you, make sure you build that additional cost of extended credit into your prices so that your profits aren't marginalized further.
2. *Do a credit check*. Buy a credit report from a recognized credit reference agency, especially one that collects trade payment information on how large companies pay their bills.

   Don't rely totally on the taking up of two references given to you by the potential client, as they may be false. Don't be taken in either by a great-looking set of accounts to determine whether you will get paid on time; a healthy-looking balance sheet might mean that your potential customer is very proficient in getting its suppliers to finance its business.

   Set a credit limit for each new client, and don't allow customers to exceed limits without your permission. After all, they are set for a good reason, as you have assessed the creditworthiness of the customer and on how long your business can afford to wait.
3. *Is a purchase order required?* As part of their internal control procedures, large companies often require signed purchase orders before paying invoices. Ask the manager/department placing the order whether they need to raise an internal PO, and if so, have they done so, covering the value of the order. Ask for a copy of the PO (NB: some large companies require invoices from suppliers to quote the PO number before they are paid).
4. *Prevent excuses*. Prevent excuses for delayed payment – after dispatching goods and sending your invoice, make a pre-due call to ensure that your customer has received them and that there are no problems with quantity or quality of the goods supplied, or with the content of the invoice. Invoice disputes can be very genuine and can push back the time you get paid by weeks and even months. It may be prudent to stop any further supplies until a resolution has been reached.
5. *Send statements*. Send statements at different times in the month compared to your invoices. Sometimes this tactic can provoke questions, particularly when original invoices have been lost, not received, or mislaid.

6. *Check on expected pay date*. Confirm with your client when your bill is expected to be paid, remembering to ask whether they have specific cheque-run dates.
7. *Use the telephone (or even a personal visit) to chase*. If payment is delayed, chase your money by telephone rather than letter. Some experts in this field say that the telephone method can be 80% more effective. Always prioritize your cash collection activity, making sure you chase the oldest and largest debts first. Be friendly but firm when speaking with them, and don't forget to remind them that you could charge interest on all late payments.
8. *Maximize your bargaining power*. Maximize your leverage. Try to establish how valuable the product you're selling is to your client. It may be a vital component in a manufacturing process, especially if it has been developed to the client's own specifications.
9. *Monitor your risk portfolio*. Keep on top of news that may affect the creditworthiness of your key clients. Put their names on a low-cost monitoring service with a credit reference agency (Graydon's service is called CreditWatch). There is nothing worse than being the last to know when something has happened to one of your key customers. Don't fall into the trap of believing that you know everything you need to know about your clients.

   Losses from bad debts can really put a strain on a business's cash flow, and in the worst scenarios can even bring companies down. You may not see all bad debts coming, but there are tools out there that can help minimize the chances of it happening, so why not use them like the credit professionals do.
10. *Develop a 'friend'*. It is generally riskier to take on new customers than grow existing ones. Establishing a strong relationship with customers will be beneficial for businesses as it will allow them to spot the signs that a customer may be struggling. Stepping in to provide advice to your customers will strengthen your relationship and ensure that your customer is on a sound financial footing. However, it is still crucial to build a broad range of clients, from start-ups to larger businesses, to ensure that the loss of one or more clients does not disproportionately impact your cash flow.

If smaller businesses follow this advice, they will find that cash-flow difficulties will ease. Two things are certain: large companies are not going to change their bullying payment habits overnight, and there will always be clients with genuine cash-flow difficulties that cannot pay up on time. Your organization may not yet be big enough to employ a professional credit manager, but taking the recommended steps above will make it look to the outside world like you do. This may well lead to you gaining not only respect from customers, but a healthier cash position for your business too.

Graydon UK is one of the top five providers of credit management services, including credit risk assessments, to companies from start-ups to large corporates. The company helps clients reduce the uncertainty of doing business by providing a complete, differentiated and high-quality package of credit risk management services. Graydon provides access to credit information and reports on companies in more than 190 countries worldwide, and offers the largest online credit report offering, spanning 150 countries. The Graydon group is owned by Atradius, Coface and Euler Hermes, three of Europe's leading credit insurance organizations. Website: www.graydon.co.uk

Gordon Skaljak is a director at Graydon UK and has over 13 years' experience in the credit industry. He has been identified as one of the Top 100 Credit Professionals in the industry by Credit Today's Credit 100 in 2011.

Invoice finance

5.2

Asset-based finance is outperforming other major forms of business lending as both clients and lenders across the globe come to recognize its inherent strengths in unpredictable economic times. With the UK leading the charge, these are exciting times for an industry that is constantly moving forward, expanding its horizons and helping smooth the long and bumpy road to economic recovery, says David Thomson, Chief Executive of Close Brothers Invoice Finance

While significant chunks of the global economy continue to falter, there is one industry dramatically bucking the trend. Latest figures released by Factors Chain International (FCI) indicate that the total worldwide receivables finance industry is worth a record €1,648,229 million or US$2,190,000 million. More specifically, in Europe the asset-based finance sector saw 19 per cent growth in 2009–10, North and South America 31 per cent growth and Asia an incredible 69 per cent growth over the same period.

As increasing numbers of countries come to accept invoice finance as a reliable solution for SME funding and as a means of facilitating international trade, the UK continues to lead the way in terms of huge choice of invoice finance houses, product innovation and an adaptability to an ever-changing marketplace.

The UK in focus

According to recent statistics from the UK Asset Based Finance Association (ABFA), invoice finance is outperforming all other types of business lending. Between 2000 and 2011, the sector grew by a staggering 209 per cent, from £77 billion to £238 billion in total client sales.

Indeed, the UK asset-based finance industry has almost returned to pre-recession levels of lending and activity. In the last year alone, it has grown by 11 per cent, proving the commitment of invoice finance providers to businesses across the UK – approximately 45,000 of them – amid a turbulent economic climate.

What's driving the success of this medium of finance?

Well, clearly there are many causes – not least the flexibility and utility of the product in providing working capital. There is no doubt that tough lending criteria is forcing businesses to consider additional means of funding day-to-day operations and growth ambitions. Q1 2011 figures released by ABFA show total advances from members growing 9 per cent year on year, whereas wider bank lending actually contracted by 2.5 per cent in the same period – quite clearly, invoice finance is capitalizing on the banks' ongoing conservative approach to lending.

As the weak and very slow recovery ambles on, access to working capital is precisely what businesses require. It is not simply that recovery puts a strain on working capital resources. As businesses gear up to win new business – or perhaps win back some of the customers lost in hard times – they inevitably spend upfront on stock, raw materials or staff, knowing that it may be months before they receive payment from the client.

Another factor influencing the uptake of invoice finance is SMEs being squeezed by customers and suppliers. Large customers in particular are using their market power to exert downward pressure on prices while simultaneously asking for more favourable credit terms. Meanwhile, on the supply side, prices are rising and many suppliers are chasing debts more quickly. The result is that often companies are caught somewhere in between, suffering both deterioration in cash flow and a shortage of working capital.

How invoice finance works

Invoice finance allows a business to raise cash against the value of unpaid invoices that they have issued. The invoice finance provider will pay a proportion of the invoice, up to 95 per cent (often within 24 hours), and can then, as an option, take on responsibility for ensuring it is settled by the client's customer. When the customer has paid, they will then pay the client the remainder of the invoice's face value, less any administrative charge.

It is easy then to see why so many businesses are starting to use invoice discounting to pay bills, take advantage of early payment discounts, increase sales and, last but not least, fund growth.

The British government indeed recognizes invoice finance as becoming more of a mainstream product. In a report published by the Department for Business Innovation and Skills,[1] invoice finance was identified as playing a 'crucial role in securing access to working capital' during the private sector recovery.

Its benefits are clear: invoice finance provides businesses with higher levels of working capital, an increased ability to make accurate financial predictions and the opportunity to react quickly to changes in market conditions.

Furthermore, the credit secured through invoice finance is directly related to the strength of the business; as a company's order book grows, so too will its credit line. This helps to provide clients with the capital they need to expand efficiently, quickly and in a risk-managed manner without the expense and continual need for renegotiation associated with overdrafts.

Where now for invoice finance?

The rapid international uptake of asset-based finance demonstrates the global embryonic nature of the industry and its products, and points to the key role it has to play in a recovery of the worldwide economy. The challenging financial climate has actually assisted in increasing the popularity and awareness of asset-based finance. By using asset-based finance products, greater levels of finance can be made available to good businesses across the globe that may have been hampered by a lack of liquidity.

Closer to home, growth of the industry remains strong. We are also seeing other areas of the industry, such as export finance, gaining popularity. This growth has, once again, most likely been assisted by the sluggish UK economy as many businesses look to exports as a way of exploiting the expansion opportunities abroad, a trend that's set to continue.

There is a word of warning, however. From a UK perspective, research from Business Money shows that of 15,000 accountants with business clients, only 2,500 are well versed in the best use of invoice finance. How can a product such as invoice finance fulfil its potential and help aid an economic recovery if a significant proportion of trusted advisers to SMEs don't understand it, or at worst haven't heard of it?

Clearly the industry itself, banks, professional advisers, government agencies, and the media each have their role to play in ensuring that SMEs – which make up 99 per cent of all private sector enterprises – have all the information necessary to make informed financial decisions.

In sum, where invoice finance was once perceived as a temporary measure to overcome common obstacles such as customer late payment and issues with cash flow, the tougher lending conditions experienced both domestically and globally are now challenging this view. It will be interesting to see what the coming weeks, months and years hold for this burgeoning industry; I, for one, will be championing it all the way!

Asset-based finance in practice

Sovereign Rotating Machines – financing growth in the manufacturing industry

Sovereign Rotating Machines is a UK automotive parts remanufacturer, building starter motors, alternators and ignition modules for all makes and models of vehicle.

Founded in 1996, the business provides for three key market needs:

1 product range and availability;

2 quality and competitiveness;

3 first class customer service.

Challenge

With travel and fleet budgets tight, purchasing a new car is a bigger decision than it used to be for both individuals and companies. Instead, car buyers are turning to remanufactured vehicles – cars where all the key components have been replaced and upgraded to create what is, essentially, a used car with a new engine.

'In tough times remanufactured vehicles represent an ideal compromise between brand new and used cars', says Sovereign's Managing Director, Richard Welland. 'Because of this, our orders are increasing, which is great – but we're having to spend a lot upfront on parts and components if we're to meet that demand.'

Solution

Reluctant to fund an expensive bank overdraft to manage cash flow, Richard talked to Close Brothers Invoice Finance about invoice discounting. 'The account manager took the time to understand our business and was able to judge the quality of our debtors accurately,' he says. 'Recognizing that our business is sound means Close was willing to offer the kind of liquidity we needed to grow the company in line with market demand. We chose IDeal™, Close's online invoice discounting facility, as it could release up to 15 per cent more funding than other traditional paper-based facilities.'

Result

Apart from supporting stock purchases, the availability of funding meant that Sovereign was in a better position to embrace new opportunities as they arose. 'We were able to take a risk on new business ventures that would not otherwise have been possible,' Richard says. 'Now our orders are increasing and the business is growing because our risk is managed and our financing secure.'

ECO Plastics – funding the growth of Europe's largest recycling plant

ECO Plastics Ltd is the UK's leading plastic bottle recycler, producing plastics for soft drinks and milk bottles. The company operates Europe's largest and most technically advanced bottle sorting facility. They process two billion bottles each year, with 70 per cent of materials reprocessed into food-grade plastic products.

Business challenge

In recent years, ECO Plastics has seen the demand for sustainable packaging in the UK increase steadily. In 2010, the company met with drinks giant Coca-Cola Enterprises, which was looking to recycle more of its plastics in the most environmentally friendly ways possible. In March 2011, the company signed a 10-year joint venture deal, a first in the UK drinks manufacturing industry, to supply the global enterprise with high-quality food-grade recycled material (rPET). Coca-Cola also had a target of including 25 per cent rPET in all plastic packaging within Great Britain by 2012.

Jonathan Short, Managing Director of ECO Plastics Ltd, said, 'We were thrilled to sign the joint venture deal with one of the most famous brands in the world and begin the next important step to expand our business. We needed to secure the additional capital required to now fund our operations.'

Solution

ECO Plastics approached a number of finance providers but found that owing to the economic climate, lending was restricted. 'It was difficult at first to find the financial backing we needed to expand our business and meet the needs of our venture with Coca-Cola,' said Mr Short. 'We approached Close Brothers and discussed a structured finance solution, tailored to our business requirements. The deal was primarily a leasing contract, secured against our existing assets which incorporated invoice finance to fund our operations during the expansion.'

Result

The combined asset-based funding facility of £18 million supported the expansion to ECO Plastics' processing plant which was completed in March 2012. Processing capacity at the facility increased from 100,000 to 140,000 tonnes of plastic bottles per year, just under half of the total collected in the UK in 2010. 'Without Close Brothers, we would have been unable to fulfil our agreement with Coca-Cola which would have not only been devastating to our business, but to the industry as a whole,' said Mr Short. 'Working with Close Brothers has afforded us the opportunity to expand our business and realize our true growth potential as we continue to work towards becoming the world leader in sustainable packaging.'

Note

1 Department for Business, Innovation and Skills (2010) *Financing a Private Sector Recovery*, July, Department for Business, Innovation and Skills, London

David Thomson is Chief Executive Officer of Close Brothers Invoice Finance. As one of the UK's leading independent providers of factoring and invoice discounting services, they offer innovative tailor-made solutions to inject cash into small- to medium-sized businesses.

With the backing of a robust, FTSE 250 parent, Close Brothers Group plc, Close Brothers Invoice Finance supply high-quality professional services that are widely recognized. Launched in 2006, their award-winning iDeal™ product has become a favourite with their customers and is now their flagship invoice discounting solution.

Their facilities have helped thousands of customers to achieve strategic objectives such as acquisitions or disposals, takeovers or mergers or simply to support cash flow. Working closely with Close Brothers Asset Finance and Close Brothers Leasing, their solutions can be combined to ensure their customers get the right solution to support their needs.

To find out more about how Close Brothers Invoice Finance can help your business, please call 0808 252 3586; email salessupport@closeinvoice.co.uk; or visit the website www.closeinvoice.co.uk.

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Tax decisions for SMEs

5.3

Tax – mill-stone or stepping-stone? Andrew Gotch of TaxFellowship looks at the advantages that planning can bring

Being involved in business means being involved with tax. The business environment is littered with tax traps and pitfalls, but equally if you know where to put your feet there are substantial tax-driven rewards to be had. What follows is an adviser's view of some of the most common areas of risk, and some of the prospective benefits, that are out there for SMEs and that are sometimes missed.

Starting in business – the tax basics

When a business is small, the pressure is on and it is all too tempting to ignore basic tax compliance matters and focus entirely on running the business. Unfortunately, HM Revenue & Customs (HMRC) knows that too – and that's why it focuses so much attention on the smaller end of the SME sector.

HMRC risk analysis focuses on behaviour as well as accounts profile and so it is essential to make sure that procedural compliance requirements are strictly observed. Late returns and late payment, as well as attracting automatic and substantial penalties, can bring unwelcome attention to a business and its owners. Avoid it if you can, but if it's unavoidable, say so – and give HMRC reassurance that you're aware of your compliance obligations and are putting things right.

Be careful about the standard of your business records. Record keeping is a chore, but HMRC will expect them to be more or less up to date and complete on a rolling basis. HMRC has instituted a new policy of checking business records and penalties of up to £3,000 are available for significant record inadequacies. Get good record-keeping habits at an early stage – and try not to lose them.

Get into the habit of transaction planning and record planning with your advisers. Most transactions can be undertaken in more than one way, with different tax consequences for each. HMRC adopts a 'systems audit' approach in its compliance activity to help it identify higher-risk transactions and so it is particularly important for all businesses to make sure that its transactions – even its routine transactions – are undertaken in a way that means that the tax treatment that is sought is demonstrably correct and defendable.

Unfortunately, knowing how to prepare records to demonstrate a watertight entitlement to a particular tax treatment is not always easy. In the case of, say, a new building project, that can mean acting as early as the initial planning applications. It really is never too soon to ask for advice about transaction and record planning, and the cost of getting it wrong, in terms of tax, can be significant.

Generally, keep in mind that HMRC's resources are thinly spread and they can't afford speculative enquiries, so the watchword is: if HMRC want to visit you, they will have a reason for asking – it won't be a random check. So let your advisers know immediately and work with them to ensure an optimal outcome.

Taking people on

An expanding business needs more workers. Employees come at a considerable price to the business, in terms of Pay As You Earn (PAYE) administrative headaches, additional National Insurance Contributions (NIC) cost and employment/pension rights. Many business owners are tempted to use freelancers, which cuts away many such problems at a stroke.

That's fine, of course: but make sure that your advisers confirm to you that the people you hire are actually self-employed and not, legally speaking, your employees. The legal line between employment and self-employment can be very thin and HMRC has developed a lucrative cottage industry in pursuing liabilities for tax and NIC from businesses who have inadvertently engaged workers who fall on the wrong side of that line. In most cases HMRC will be seeking to recover liabilities for up to six years in the past and the bill, including interest and penalties, can run into tens of thousands very quickly. Taking proper advice on the contractual relationships between you and your freelancers may be the best investment you ever made.

What if you do take on an employee? How do you motivate them to work harder? How do you attract particularly talented individuals? How do you get them to stay? The answer might be a share scheme, allowing all or some of the employees to share in increases in the value of a business through some dividend income or on an exit.

For a particular employee a bespoke scheme can be devised, although such schemes usually come at a cost; but there are many tax-advantaged statutory share schemes available that address the needs of different categories of employees and are generally less costly to implement. For example, 'rank and file' employees can benefit from a Share Incentive Plan. For more senior or valuable employees, there is the Enterprise Management Incentive (EMI) scheme, which allows the grant of options worth up to £250,000 and can confer very significant rewards through tax-free award and exercise. The motivation to add value to the business is clear. Both schemes need careful implementation, but provide generous incentives for employees.

The developing business

Many growing businesses fail to identify that what they are doing in developing their product qualifies as research and development for tax purposes. That's a costly error

because the right sort of R&D attracts a very generous portfolio of tax reliefs that can materially reduce a business's tax liabilities. The correct identification of R&D and the compilation of a claim are not straightforward and normally require experienced professional assistance, but the advantages can be significant.

Similarly, capital allowances can confer considerable tax breaks, notwithstanding that the headline rates have generally been on a downward slide over the past few years. Once again, planning and expert help are essential to identify the subject matter of a claim and to ensure entitlement, and this is another area where it is important to keep advisers involved in planning for asset acquisition. Some advisers claim that a minimum of 25 per cent of the cost of a new building should qualify for allowances if the right planning steps are taken.

Developing businesses may also need to attract additional investment. For many trading companies, the Enterprise Investment Scheme can provide access to venture capital from interested third-party individuals. Investors can subscribe up to £1,000,000 for shares and get upfront income tax relief, and if they retain their shares for more than three years any gains they make on sale are tax free. Investors cannot be employees, but they can become directors of the company without losing their entitlement to relief. Predictably, such a generous relief is hedged around with conditions, so professional advice is essential, but the Enterprise Investment Scheme (EIS) can be used to secure substantial funding.

Planning for exit

When a business is mature, shareholders' thoughts turn to realization. However, even if it seems that a future sale is a long way off, it is never too late to start planning for that eventuality. The entrepreneurs' relief tax rate of 10 per cent on the first £10,000,000 of capital gains is worth planning to get – a saving of £1,800,000.

Many companies will have developed more than one business stream. But if an offer comes in for just one of them, the shareholders may find themselves caught out and unable to access the 10 per cent rate on the value of the business that is sold. Even worse, they may find themselves paying corporation tax on the gain on the sale and then having to pay further tax personally to get the after-tax gain into their own hands – a painful double dip.

The answer is to ensure early on that business streams are segregated, possibly by hiving down into separate subsidiaries (in which case the gains arising to the holding company might be tax free if the conditions of the substantial shareholdings exemption are satisfied) or into separate companies owned by the same shareholders by way of a demerger (in which case the gains accrue to the shareholders and attract entrepreneurs' relief).

This sort of reconstruction is not to be undertaken lightly and expert help is required. But it is not planning that can be done at the last minute. Far too many SME shareholders see themselves cut off from tax advantages that they should be able to enjoy by not having taken action soon enough.

Don't neglect to plan to secure entrepreneurs' relief either. It is a valuable relief but has many conditions. Plan with your advisers to ensure that for at least a year before

any envisaged sale your shareholding is adequate (> 5 per cent); that you are an officer or employee; and that your company is a trading company. The latter is not as straightforward as it sounds, because 'trading company' has a special meaning. In particular, be very careful not to undertake any non-trading activities within a trading vehicle, such as property rental or holding investments. Once again, if there is any doubt, get your adviser to give you an entrepreneurs' relief health check. Without that, you could catch a very expensive cold!

Andrew Gotch BA MA CTA (Fellow) of Chartered Tax Advisers TaxFellowship advises taxpayers and businesses. He is currently Chairman of the Chartered Institute of Taxation's Owner Managed Business Technical Sub-Committee: tel: 01869 232778; e-mail: andrewgotch@taxfellowship.co.uk

Utility bills: stemming the tide

5.4

Donald Maclean, Managing Director of Business Cost Consultants (BCC), explores the scope for making savings

Over the past few years businesses have seen the costs of electricity, gas and water soar, putting pressure on already tight profit margins. These rises, together with increasing environmental legislation, ambitious carbon reduction targets and uncertainty over security of supply, are putting pressure on businesses to manage costs to ensure survival, competitiveness and a base from which to grow in the future.

Any savings which can be achieved will directly affect the bottom line. This can be quite significant given that utility costs, on average, account for between 5 and 10 per cent of most companies' annual budgets. You may feel that everything possible has been done to rein in energy spend and consumption, but there is always scope to make further savings.

Are you paying too much?

Research carried out by Glasgow-based utility consultants, Business Cost Consultants, estimates that some 80 per cent of businesses in the UK are unaware that they are paying too much for their electricity, gas and water owing to flaws in their procurement procedures and errors on bills. If you have the time and your staff have the expertise, make sure that each utility bill is checked thoroughly. If bills do not appear on time chase them, otherwise you will simply postpone the pain of a larger bill. Keep track of your utility costs and consumption on spreadsheets, so that you can quickly spot anomalies in your costs and your consumption. Take meter readings for gas, electricity and water at least once per month and feed them to your suppliers. That way you can avoid inaccurate, estimated bills.

Many businesses do not have the time or specialist expertise to audit their own utility bills accurately. The result is that mistakes, inaccuracies and energy/water wastage occur. Some companies are therefore turning to independent utility consultants to help reduce costs and cut consumption.

Auditing consumption

Using smart meters and data loggers, which transmit real-time data to a central computer, you can analyse electricity, gas and water consumption to identify areas where savings can be made. This analysis can highlight if equipment is left on overnight or if thermostat settings are wrong. Also, without smart meters, gas and water leaks can often go undetected for long periods of time, resulting in large bills at the end of a quarter. Some smart meters and data loggers can be programmed to spot such anomalies automatically and immediately alert the user by SMS or e-mail.

If you are not confident about how to use the data from such devices, consult an expert. Not only will they be able to interpret and deduce useful information from the data, they will be able to send experts to your sites to look for potential savings in energy and water consumption and for reductions in carbon emissions. Real savings of over 20 per cent are not uncommon.

We identified savings of about 15 per cent when we noticed a factory was ramping up about three hours sooner than necessary and informed a hotel that their heating was running 24 hours a day in summer. Without our expertise, these instances would have gone unnoticed, resulting in an unnecessary waste of money which could be invested back into the business'

Don't miss renewal dates

It can be difficult to keep track of all termination dates and contract end dates. However, businesses that unwittingly allow gas and electricity contracts to roll over without review can end up paying much higher prices, in comparison to existing rates.

Suppliers' terms and conditions are tough and generally not in favour of the customer. Usually, suppliers will require written notification to terminate an existing agreement at the end of the contract. In general, they require more than 30 days' notice, but some suppliers state that they need up to 90 days' notice. If this notice period is missed, the supplier can extend the contract for one or two years at a higher rate without the need for a further agreement being signed. It is therefore crucial for business owners to know when all contracts are due to end and look into alternative suppliers well in advance of contract renewal dates.

Energy contracts

We are all aware of the volatility of energy prices over the past five years or so. Most people wrongly think that the best ways to attain good prices for their energy contracts are to seek plenty of prices and to try to buy in bulk. However, if you go into the energy markets at the wrong time, the difference between all the prices quoted will be a few per cent.

It is recommended that you monitor the energy markets for at least 12 months before energy contracts are due for renewal. However, this will vary depending on

the size of the supply – small supplies might not be able to get prices from suppliers more than three months in advance of the renewal date.

The experts monitor energy markets on a daily basis and pay for market intelligence. That is why they will buy energy contracts for their clients near the bottom of the market. In any year wholesale energy prices can fluctuate by 30–100 per cent.

By monitoring the market and purchasing at the right time, as opposed to when their client wanted to buy, one of our clients recently saved just over £600k.

It is also important to note that most energy companies sell through a variety of departments and channels. If you run a large organization you might assume that you will get the best energy prices from the suppliers' corporate sales department. However, better prices might be obtained from the SME department or from a different sales channel.

The more data you can supply to energy companies when tendering your energy contracts, the better the price you are likely to obtain. Lacking information, the energy companies build in a risk premium, meaning that you pay a higher price.

It is also important to check the terms of your energy supplier's proposed contract carefully. Although the price it offers may look the cheapest, in the small print you may find that it has omitted some charges in its calculation which purports to show you the price you are likely to pay in any given year.

Contracts normally contain take or pay clauses. They can easily catch you out. If there is a mild winter and you spend money on energy conservation measures, your consumption of gas may be much less than you expected. You could be heavily penalized if you do not take close to the volume of gas on which the contract was based.

Become greener

While increasing environmental legislation is obliging companies to become 'greener', it is ultimately in the best interest of businesses to lower energy usage to reduce costs. Businesses should draw up an energy policy setting out how each employee can help reduce energy consumption. You can also reduce your carbon footprint by encouraging recycling and how employees travel (car sharing and cycle schemes, for example).

It is worth considering buying 'green energy' instead of 'brown energy' through suppliers or installing an on-site source of renewable energy such as wind, solar, heat pumps or biomass boilers. It is also worthwhile considering a rainwater harvesting system which collects rainwater in large tanks which is then filtered and can be used for flushing toilets, or in some production processes (eg cooling machinery). There are also a host of energy conservation measures which can be implemented, such as boiler controls, draught-proofing, insulation, variable speed drives, voltage optimization, power factor correction, energy efficient lighting and lighting controls. Soft loans are sometimes available for organizations buying and sourcing environmentally sustainable technologies. In addition, it is possible to offset your carbon through buying trees and investing in renewables.

Consult an expert

There are many steps that businesses can take to reduce energy consumption and costs. The above outlines only some examples. Energy consultants can help with all of the above and more, and in most cases there is no net cost as fees are taken from the savings achieved.

They have access to daily market information, have years of experience in dealing with suppliers and can help devise and support energy management plans, making prioritizing utilities as a cost-cutting measure easy. They are also expert in negotiating with suppliers, for example when bills are in dispute.

It is important to note the difference between consultants and brokers. Brokers will normally seek prices from a select few energy suppliers with which they have arrangements. Their fee will then be added on to the price they obtain for you and you may not be aware of the commission you are paying them. Independent consultants will scour the whole market for you and share all the tendered prices with you, before allowing you to choose your supplier. They will not take any commissions from suppliers, preferring to remain totally independent by being paid out of the savings they demonstrate to you.

Business Cost Consultants is one of the UK's leading independent utility consultants. Based in Glasgow, for over a decade they have been helping businesses such as Aegon, Apex Hotels, Walkers Shortbread, The Morris Furniture Group, Holiday Inns, Rangers and Celtic Football Clubs and CALA Homes reduce their utility bills and cut consumption. Further information: tel: 0141 226 8525; e-mail info@businesscostconsultants.co.uk; website: www.businesscostconsultants.co.uk

Commercial fraud and business identity theft

5.5

As a small business, it is easy to become a target for fraud, says Gordon Skaljak at Graydon UK. What can you do to prevent it happening?

One in three businesses has received a credit application from a business intending to obtain services fraudulently, according to research by credit reference agency Graydon UK. Fraud in the UK also reached a record high in 2011. The KPMG Fraud Barometer revealed that fraud totalled £3.5 billion in 2011, an increase of 150 per cent on the previous year. Commercial fraud and business identity theft in particular are common problems for SMEs and it is important that they understand why this is the case and what they can do to protect themselves.

Commercial fraud is often caused when orders for goods on credit are not properly vetted by suppliers. Smaller businesses are often viewed as vulnerable targets by fraudsters because they are too small to employ professional credit managers.

Fraudsters use genuine company details for dishonest purposes. This has become known as 'identity fraud'. Signatures are forged in order to have goods delivered to an address which in no way is associated with the original bona fide company whose identity has been stolen. Fraudsters also file false documents such as fictitious balance sheets at Companies House in order to generate good credit ratings with the information agencies. On top of these filings, fraudsters are filing false Director Appointments and Registered Office changes in order to facilitate identity theft fraud.

However, fraud can only be perpetrated when existing credit control procedures at the supplier's end are insufficient. The good news for businesses is that procedures can be put in place to tackle this problem and tips can be taken on board to protect your company's best interests and profitability.

Firstly, like consumers, businesses should be very careful as to how they dispose of their rubbish. Small businesses in particular should never throw away paperwork such as utility bills, credit card statements, bank statements and documents with confidential information on them without shredding them first. Identity thieves are known to rummage through rubbish and recycling bins outside commercial properties.

To prevent your business becoming a victim of fraud or corporate identity theft, it is essential to monitor what documents have been filed on your company at any point in time. Some credit reference agencies provide services such as e-mail alerts and

monitoring that will send you an e-mail when any such changes occur on your company or any business you are interested in. Make sure that you use an agency that can provide daily monitoring with immediate e-mail alerts. If you are subscribed to that service and you receive an e-mail alerting you that somebody has filed, for example, Change of Particulars (Company Officers), Change of Registered Office Address or other critical documents, you may wish to check if these are genuine or known to you as true facts.

Graydon UK has identified a number of steps that businesses can take to protect themselves against the threat of corporate fraud:

- Always obtain a credit report for customers and suppliers that does not simply repeat Companies House data but one that tracks and analyses unusual patterns of corporate behaviour in order to identify potential fraud. Graydon UK can conduct both ongoing and fresh investigations for their clients and can check for any duplicate accounts that have been filed at Companies House under different company names.
- Never set up a client account until their application for trading has been fully checked and processed.
- Always verify clients' trading and registered office addresses.
- Be wary of mobile phone numbers and non-business e-mail addresses such as Hotmail or Yahoo.
- Check whether your customers have a website when establishing their identity.
- Most companies will support their order by supplying a purchase order from their accounts department – make sure that you obtain a purchase order number before supplying any products or services.
- When dealing with non-incorporated businesses, always request original copies of utility bills addressed to the delivery address that you have been supplied with.
- Double-check all delivery addresses, keeping a close eye on what sounds like residential addresses.
- Check whether clients are VAT registered by calling the VAT Office for confirmation, or simply verify VAT registration via the European Commission's VAT validation website (http://ec.europa.eu/taxation_customs/vies/) which covers all EU countries.

It is also extremely important to flag certain events and details that seem out of the ordinary. Here are some examples of incidents which should alert firms to the possibility of fraudulent activity taking place:

- Is a sudden change of delivery address provided to you by the client?
- Is there a last-minute call to collect the goods rather than have them despatched to the quoted delivery address?
- Is the delivery address given by the client shown on the credit report you obtained from your agency?
- Are the telephone numbers of the business you are dealing with fixed-line or non-geographic such as 0800 numbers?

- Have you received an order on the last afternoon of the month? Fraudsters, like credit managers, understand the pressure from the sales department!
- Look out for unusually large orders placed at the start of a new month, where a fraudster will anticipate that they have the longest timeframe before you chase for payment.
- Have you received a large first-time order on a credit card? If so, be wary.

Graydon UK is one of the top five providers of credit management services, including credit risk assessments, to companies from start-ups to large corporates. The company helps clients reduce the uncertainty of doing business by providing a complete, differentiated and high-quality package of credit risk management services. Graydon provides access to credit information and reports on companies in more than 190 countries worldwide, and has the largest online credit report offering, spanning 150 countries. The Graydon group is owned by Atradius, Coface and Euler Hermes, three of Europe's leading credit insurance organizations. Website: www.graydon.co.uk

Gordon Skaljak is a director at Graydon UK and has over 13 years' experience in the credit industry. He has been identified as one of the Top 100 Credit Professionals in the industry by Credit Today's Credit 100 in 2011.

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PART SIX
Platforms for growth

Seeking platforms for growth

6.1

As new start-ups set out on the path to grow a business from its entrepreneurial foundations into an operation that requires new premises and access to the available infrastructure, they are inevitably presented with a huge challenge. Tim Newns, Chief Executive of MIDAS, Manchester's inward investment agency, looks at the options for scaling up an entry-level business

Despite the ongoing uncertainty of today's economic climate, there are, encouragingly, few signs of a slowdown, with suppliers continuing to work to meet the requirements and demands of new businesses. In Manchester, our emphasis is on investing in initiatives that offer cost efficiency balanced with two essential requirements: adaptability and flexibility.

There are plenty of projects coming out of the ground in the UK which suggest that there is a renewed confidence in the air. It might be an obvious point to suggest, but make sure that you research the local infrastructure that is available to you. You can, of course, start by going one step further – look towards the projects that are in the pipeline. This will provide you with an insight into the future of the market, offering a snapshot of where things are headed.

For example, Allied London announced in March 2012 that their next building to be erected in the Spinningfields district of Manchester – the city's contemporary business hub – will be 'I+'; a seven-storey, 160,000 sq ft office block aimed at telecommunications, media and digital-reliant tenants.

The concept of 'I+' is based around the idea that its tenants will dictate the inner workings of the building, in order to suit their needs. The development will essentially be a concrete and glass shell, in which the tenants determine the specification of the services that they require and, most importantly, they will have an influence on the cost.

What does this mean for executives of new businesses who are currently looking to expand their operations? 'I+' does in fact point towards where the market is already heading: the inner core of Manchester is now awash with projects and developments that allow start-ups and SMEs the freedom of control over their environment and expansion plans. For entrepreneurs and start-ups looking to maximize their investment into new premises, MIDAS recommends taking the following five steps.

1. Minimize risk

In order to achieve growth it is important to have the right kind of base to scale up a venture. There are many schemes that offer businesses, regardless of size, the chance to expand their organization with little risk. Make sure you explore these options.

In Manchester, a series of incubators and growth hubs presently exist to support the emergence of new businesses and the development of SMEs. Current projects and schemes include Manchester Science Parks, The University of Manchester Innovation Centre (UMIC), Innospace – Manchester Metropolitan University's business incubator, The Sharp Project (for entrepreneurs and start-ups in the creative industries), MediaCityUK (the new home of the BBC and ITV in the North) and the Corridor – a business location at the heart of Manchester's knowledge economy, which covers over 243 hectares and houses a 55,000-strong workforce.

All of these developments offer opportunities for businesses to grow with minimal risk. They are ideal for start-ups, businesses looking to expand or organizations looking to relocate. Often these schemes offer events and seminars, courses and training on key issues such as changes in VAT and IP law, all of which are ideal to helping SMEs grow.

2. Seek out support services that are available to you

Many locations provide support to help minimize the initial risk even further. In Manchester, MIDAS deploys a 'soft-landing' service for national and international businesses that are looking to expand into Europe.

'Hello Manchester' is a service that offers free office space to overseas investors along with a full range of business support. The initiative provides businesses with the opportunity to establish a foothold in Europe's top city for business competitiveness[1] with minimal risk and cost. Companies taking advantage of this service benefit from the city's unrivalled access to markets and networks and gain the chance to internationalize their company and build a customer base before making significant capital investment.

3. Seek the correct financial support

Growing businesses can turn to a number of organizations for help with working through innovative finance options. It's crucial to find the right finance package for your company that will allow you to achieve short-, medium- and long-term objectives and to access the appropriate financial solution needs and specialist advice.

In Manchester, there is an organization called North West Access to Finance which can provide specialist support for SMEs and access to business angels. Some funds set a minimum investment threshold, such as Regional Growth Fund which attracts bids for capital investment of at least £1 million.

For smaller high-growth companies it is often much lower levels of support that are required to take them to the next stage of product development. There are a number of funds available that will invest or lend as little as £10k or provide access to specialist coaching, mentoring or consultancy, or could even include collaborative R&D solutions.

In Manchester, as a response to requests from businesses to provide innovative finance solutions, the city has created the Manchester Investment Fund. The Fund aims to make it easier for smaller companies to lend money without giving up equity, but at much lower interest rates than commercial solutions.

4. Call on the right skills and seek out 'collaborative communities'

Forge contacts with the city's educational institutes, such as The University of Manchester, which has a long history of working with technology companies. 'IBM is a great example of this,' says said Professor Rod Coombs, the university's deputy president. 'The IBM Manchester Laboratory has its origins in technologies developed in the School of Computer Science, and the university has many ongoing collaborations with IBM. For example, the university prides itself in having among the most comprehensive Computer Science and Information Technology Management programmes in the country, and IBM contributes a Business IT Architecture module to these, providing a unique draw for students from across the globe.'

The quality of graduates in Manchester played a key role in IBM making a decision to open a Development Lab in the city. Many of the Lab's engineers and staff are University of Manchester alumni, including several members of the management team. However, IBM has also been able to benefit from Manchester's proximity to many other UK locations, attracting skilled employees from across the North West, with a number of employees commuting from surrounding cities, including York and Sheffield.

It may be considered controversial by some, but collaboration between commercial ventures and education providers enables growth. Environments in which businesses can exchange knowledge result in innovation. Businesses located in incubators or locations such as Manchester Science Park, the Sharp Project and the Corridor are testament to this. The flexibility offered and the collaborative nature of these locations provides the chance to build business opportunities in a low-cost environment. This significantly removes the risk for companies but allows them to foster innovation and benefit from shared profits.

Businesses such as Phagenesis Ltd (Bio), Cascade Consulting (Energy & Environment), Cubic Motion (Creative, Digital & Media), Bell Munro (Construction) and Telecity (ICT) thrive in these environments. Such locations can create steady growth, enabling business to move from that solitary desk into an office.

5. Use technological advances to your benefit

The rapid change in technology and its increasing dominance can often be challenging. However, it also offers small businesses the chance to compete with larger and more established organizations, enabling them to work globally and providing access to a global marketplace.

One such example can be seen in the Sharp Project, home to many of the city's digital and creative start-up companies. These offices, which are located in shipping containers on the former site of Sharp Electronics in East Manchester, provide affordable entry points to small businesses. The site combines space, imagination and power, attracting industry leaders of the sector as its occupants.

Sharp, which offers businesses easy-in, easy-out contracts, provides start-ups the ideal opportunity to get their foot on the ladder without facing too much risk. It evolved from the city's desire to strengthen its already formidable digital content sector after the BBC's decision to move to MediaCityUK in Greater Manchester.

Sue Woodward, director of the Sharp Project, is very clear on Sharp's role within Greater Manchester's media landscape. She describes it as a 'grow bag' for start-ups involved in the creation, manipulation or distribution of digital content. 'We're not really attracting the people who want to be at MediaCityUK, we're attracting those who want to supply them,' she explains. 'We're the centre that innovates. Then we take out innovations and sell them to the guys down the block.'

With such a flexible set-up it is easy for growing companies to expand in environments such as these, but they won't be locked into a punishing lease if the business fizzles out. And at £50 a week for a single unit, it is proving to be a very popular scheme.

The importance of high-speed internet to the project cannot be overemphasized. Woodward points out that most creative firms can't afford superfast broadband, and this stifles innovation. But access to the internet exchange based at Manchester Science Park – one of only two transatlantic pipelines in the UK – is giving companies based at Sharp a powerful market advantage. It also enables Sharp to create a virtual super studio – a global network capable of digital content production by joint teams in different time zones.

At the same time, it is important to be flexible and modify your offering – this can be seen in many of Greater Manchester's IT companies and the dominance of social media. Several communications companies in Greater Manchester have embraced cloud computing.

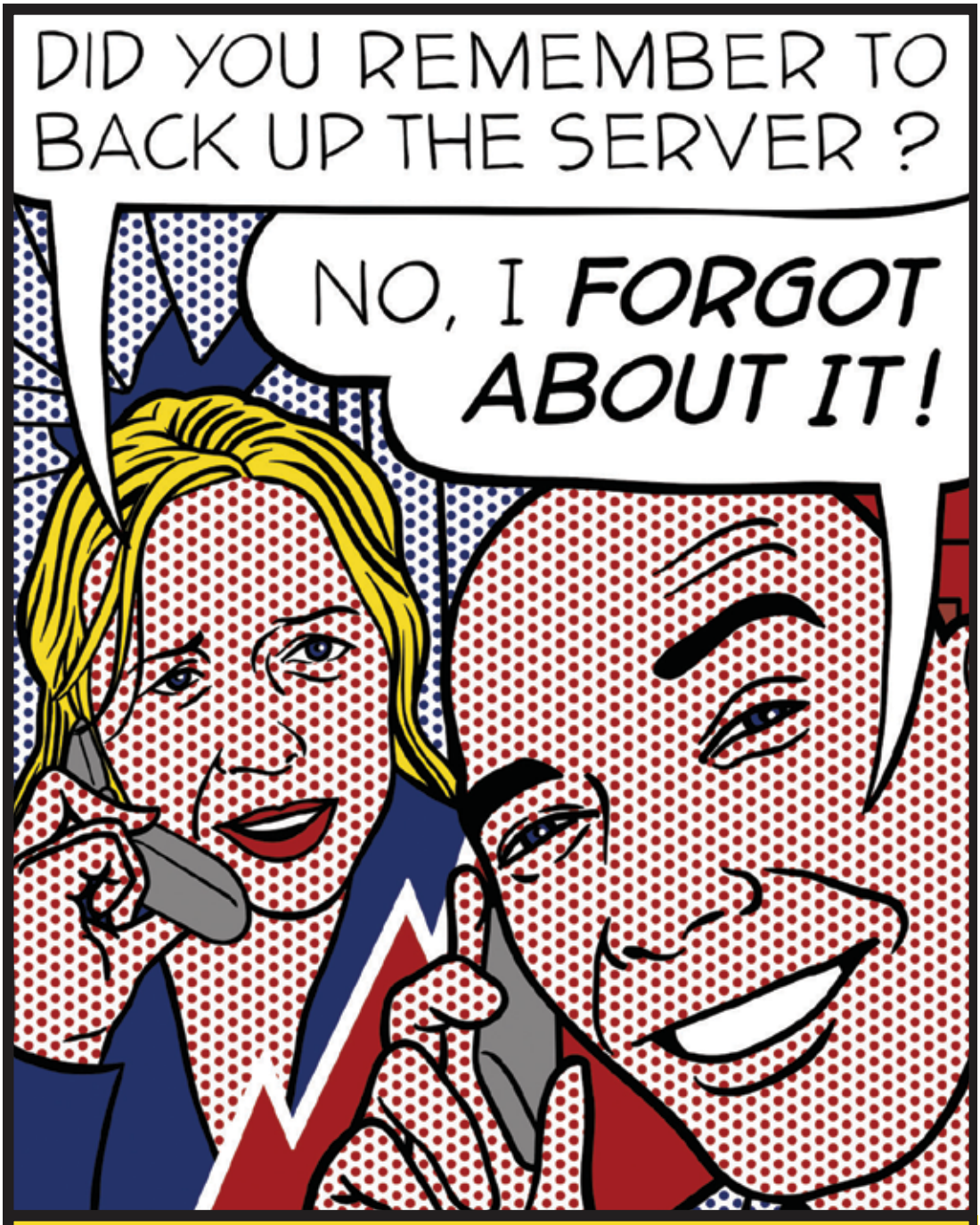
One example is Fast Net whose business has increased 67 per cent year on year. The company has spent £4 million building a 12,500 sq ft data centre at Trafford Park.

Their chief executive, Lawrence Jones, was cited in the *Financial Times* in 2011 saying '...that Manchester's growth is helped by its infrastructure. It has the only direct link into the internet in England outside London, has plenty of power supply and is centrally located in the UK.'

Note

1 KPMG International, 2010.

Tim Newns is the Chief Executive of MIDAS, Manchester's investment and development agency. MIDAS is dedicated to helping overseas and UK companies establish and grow their business in Greater Manchester. It offers an extensive package of expert, free and confidential advice for potential investors and location consultants. Tel: + 44 (0)161 875 2239; website: www.investinmanchester.com



Questions on the cloud

6.2

Cloud, smoke or mirror? Marco van Beek at Forget About IT looks at the implications of cloud computing for network design

Many of you will have heard the latest buzzword in IT, 'cloud computing', but I suspect that if I ask you all what it means, there will be as many answers as there are readers. And none of you will be wrong, yet very few will actually be right.

Cloud computing is the latest catch-all phrase for some technology and methodology that has been around for decades. There are now a large number of server farms in various places all over the world, including London. These server farms are mostly owned by different people, who in turn rent space inside them to a second set of people who install lots of servers in them. Once all these servers are powered up and connected together they are rented out as raw processing power and data storage to a third set of people who create services which they then pass on either directly to the end user or, more usually, to a reseller who actually drums up the business. Making it all sound very new and cutting edge makes it easier to market. Advances in hardware design have made it cheaper to implement, and advances in software have made it easier, but none of it is new.

When computing first started, you rented time on a mainframe computer. It was centrally controlled by system administrators who decided everything for you. You got what you were given, which hopefully was what you needed, but certainly wasn't what you wanted. It had its upside. Programs were generally more reliable, the software was usually better written in terms of stability, albeit harder to use. There were no marketing people to push endless enhancements that nobody in their right mind would ask for. Then the personal computer arrived, and ever since then, the costs of maintaining computer systems have been spiralling upwards. Viruses, countless updates, security patches, it all adds up. It was so much easier in the old days... Well, it wasn't really, but ever since, much of the IT support industry has been trying to centralize everything again as a way of reducing costs.

A second factor is the advances in virtual computing. It is nothing new. Computers in the mid-1960s were already able to provide a virtual environment for older versions of systems. By the late 1990s many web developers were renting their own virtual server, which would be one of 20 or more on the same hardware, and they, in turn, would run 100+ small websites on it. And as each layer was added, a profit was made. The stage was set. Now that the hardware supports virtualization and the control software can manage many physical computers, scalability has become not only practical, but massively profitable.

So why is virtualization of such interest? It is basically a time share. Computers rarely use 100 per cent of their capacity, 100 per cent of the time. So part of the interest is cost. If you can get one physical server to do the work of many, it is cheaper in terms of both hardware and power consumption. It also comes into its own when you can move the virtual servers seamlessly from one bit of hardware to another. That gives you the ability to add or replace hardware as it is needed, without anyone noticing. You can get your salesperson to sell, sell, sell, knowing that you can always squeeze another virtual machine in somewhere, and once there is enough revenue coming in, buy some more hardware and spread the load. It is the ultimate 'just in time' supplier solution, as you don't actually need the bit in time to satisfy the client.

So what really is cloud computing? Broadly speaking, it breaks down into three different categories: rental of storage, rental of services and rental of hardware:

- Rental of storage is the easiest to define. Someone, somewhere, built an enormous room full of hard drives and started to make money by renting you that space. Other people then did the same thing in other parts of the world, and some more of them have done it all over the world, duplicating the data to provide better fault tolerance. These people cannot really buy hard drives any cheaper than you or I could, if we were to buy them in the same numbers. Their margins are in using the latest compression tools to squeeze the data into the smallest possible space, and selling space rather than size. They also sell themselves on being secure, and virtually indestructible, which is not always the case. There is little difference between the hardware they use and the hardware you can buy off the shelf yourself. They have economies of scale, both in purchasing and security, but more than a few recently publicized outages have shown that they are just as vulnerable to hardware failures, staff incompetence or malicious behaviour as the rest of us.
- Rental of services, including what is more commonly known as SAAS (Software As A Service), is where a company rents you a service, usually a bit of software which resides on their servers. You pay a monthly fee, and in exchange get to use that software. When you stop paying, you lose access to the software and the data that was in it, unless you exported it first. Software developers love SAAS because they can continuously develop the software, bringing out updates by the minute, if needed.
- Rental of hardware is where the big boys play. People like Amazon have big installations all over the world where you can rent virtual computers with the configuration of your choice. You can rent processing power by the hour, and it is great for technology start-ups which are going to need a lot of capacity with little or no notice, but cannot afford to gear up until the money starts coming in.

So any current cloud solution will fall into one or more of the above categories, regardless of how they dress it up. There is no one 'cloud', but thousands. There is nothing in a basic cloud that makes it any more or any less reliable than a server in the same building as you.

So why all the hysteria? Is it just a case of the emperor's new clothes, or should we believe the hype?

As with all things in life, one size usually fits none. There are aspects of cloud technology which are very useful, and some which leave you in a worse position than before. In all cases it comes down to the small print. What are you actually signing up for?

The best example of a cloud solution being a good idea is remote backups. Software running on your local computers can be copied to a remote location, so that if the computer is stolen or the building burns down, you have another copy. It is the logical progression from having to remember to take a tape home every night. However, a proper backup system will have some sort of rotation so that a new backup does not overwrite an older backup. If you want to use a cloud solution for all your backups, it needs to have some sort of rotation system that you are happy with.

You also need to be happy with where the data is stored. Cloud solutions sell themselves on being secure, and some are. There are backup providers who have located themselves in Cold War bunkers and missile silos, and others who are less paranoid. Microsoft set up a small server farm in a tent for a few months in 2008, just to prove that they could. Hopefully they didn't sell it on eBay afterwards... For some businesses there may be jurisdictional issues as well. Although there are 'Safe Harbor' agreements between the United States and the EU, they aren't always enough, and besides, your own clients might have something to say about where you store the data they have entrusted to you.

You also need to know what happens when someone forgets to pay the bill. Does your data just get deleted? Do you have a grace period, and how do you find out when the credit card that was used expires? The management of your cloud solution is even more important because it is out of sight. There is no tape that has failed to eject, no flashing red lights, but with luck, you might be able to get a confirmation e-mail and a log file at the end of each backup.

If you want to use a SAAS solution there are other questions you need to ask. With a backup solution you have the primary copy of your data, but with a SAAS solution it is stored on the provider's servers. You are wholly reliant on them performing reliable backups. It may be possible to have a scheduled data export dump e-mailed to you each night, but if not, you may need to do one manually every day, just in case. And if you cannot export your data easily, you should consider if the solution is as good as it seems. As with a backup solution, you need to know what happens if you forget to pay your bill, but now you also need to know what happens if the provider forgets to pay the bills. They will be renting virtual servers from a larger cloud provider, or rack space for their own physical servers. Either way, doing an initial credit check and keeping an eye on their ongoing financial health is prudent behaviour.

And with all of these solutions, you need to know how reliable it is. Server hardware has the same levels of reliability no matter where it is located. Just because it is a 'cloud' solution does not magically make it better. Yes, some cloud providers will automatically move virtual machines to different servers to allow them to swap out ailing hardware, but you get what you pay for, and just because a provider tells you they have multiple locations, it does not automatically mean that if one location goes down, your data and services will be seamlessly switched.

Many providers will give up some uptime figures. However, I am always astonished at how few people actually do the maths. A 99.9 per cent uptime figure also means

that the system is expected to be down for eight hours a year. Microsoft's Office365 became known as Office364 after a couple of outages within a month of being launched. Both Amazon and Google have also had problems, and RIM had over two days of disruption to its BlackBerry services.

Another cloud solution is the plethora of remote desktop solutions, often known as 'Infrastructure As A Service'. With these solutions, you ditch your desktop computer and use a virtual desktop computer, usually together with a virtual server from a cloud provider. Back at your desk, either you use a 'thin' client computer, little more than a dumb terminal, or you use a remote desktop program on your old computer, and all your data is on the virtual system. This is now a system that has been specifically 'constructed' for your business, just as it would be if you had your own server, so you are likely to need similar levels of technical support. At this point all your eggs are firmly in one basket, and worse, you are likely to have handed all of your software licences over to the provider for it to convert to rental ones. When you finish with that provider, you will own nothing, as the licences now belong to them. You will have to start again. It is a dangerous position to put yourself in.

So the cloud is not necessarily safer than having your own server, and it is not necessarily more reliable either. It is usually cheaper, but you usually pay the price in terms of quality of service. Worst of all, you are often placing your business in the hands of people you may not be able to speak to when there is a problem.

The cloud is just another tool. It can be part of your IT solution, but it needs to be assessed just like any other part of your business strategy. The internet is great for hiding behind. A fancy website, some cool pictures, hard to tell the fluff from the substance, or should I say the cloud from the smoke. What the cloud is not is a new set of shiny new clothes that only the clever people can see.

Achieving growth through your working environment

6.3

Ismena Clout, Chairman of the British Institute of Facilities Management (BIFM), provides an overview of how managing your facilities effectively can give a real injection to the bottom line and facilitate effective growth

Most businesses have a workplace and if the organization is to grow and flourish, that workplace must be well managed. That's what good facilities management (FM) does. It's about supporting people to work how and where they perform best, linking people, place and technology to create productive environments from offices to hospitals and schools to oil rigs. Well-managed facilities make the difference between business failure and success.

Well-being and productivity

We spend most of our waking hours at work, so we deserve a pleasant workplace that supports us when we want to work quietly, collaborate with colleagues, hold private discussions or have a Skype conversation with a client on the other side of the world. A good workplace makes people feel well, energized, productive and enthusiastic about their work. It will make them want to come to work. A poor workplace, in comparison, frustrates people's work, reduces their productivity and can even make them sick. A 1984 World Health Organization report suggested that up to 30 per cent of new and remodelled buildings worldwide may cause their occupants to become ill. Known as sick building syndrome, the condition can cause irritation of the eyes, nose, throat, skin irritation and odour and taste sensations, and is linked to inadequate ventilation and chemical and biological contaminants. Ensuring good ventilation is therefore crucial – offices with windows that open are rare in large offices but remain popular with occupants.

Lighting is also an essential part of office life – people need illumination to read, write, type and interact with one another. Although some trendy design agencies have experimented with working in the dark and even restaurants have been known to serve food in the dark to enhance its taste, they quickly switch the lights back on when the press attention dies down. According to academic research, 85 per cent of office work requires light, and poor light, or a lack of light, is a key cause of depression, as well as eye strain and headaches. A well-lit space also makes us happier and more productive. A recent North American investigation revealed that brighter office lighting increases employee performance by more than 10 per cent. People tested in varying lighting conditions were found to be more alert and to experience mood elevation under brighter lighting. Natural daylight is the best option – one California-based manufacturing company introducing skylights to improve natural light and saw productivity increase by 5 per cent and absenteeism fall by 40 per cent. But where that's not possible, care should be taken to ensure that there is adequate light for all the different activities performed, from individual work to collaborative meetings.

While the facilities manager will need to have some central control over the workplace, research from the Prism team at the University of Exeter reveals that control over your immediate office environment improves concentration, well-being and productivity. So allowing people to personalize their space, and have control over their environment such as lighting levels and temperature, will pay dividends.

Mood food

What we eat has a big impact on our performance at work – from mental clarity to energy, stamina and productivity, food governs how well our bodies and brains function. Research from Vielife reveals that employees with poor nutritional balance reported 21 per cent more sick-related absence and 11 per cent lower productivity than healthier colleagues. People with good nutrition report a 15 per cent higher mood score, 6 per cent higher job satisfaction and 28 per cent better stress management score. Meanwhile another Vielife research project showed that the most healthy quartile of the workforce is seven hours more productive a week than the least healthy quartile. Therefore providing the right food for employees at work can help to boost their productivity and the bottom line. Employers also find that providing catering in-house reduces the need for employees to leave the office, meaning that they actually spend more time at work.

But hold the cakes and disconnect the coke machine. Replace the meeting biscuits with fruit, nuts and smoothies, offer free fruit to staff and consider low-carb alternatives to lunchtime sandwiches to combat the post-lunch slump. From edamame beans to seaweed, there are numerous foods which are believed to boost people's performance. Professor John Stein, emeritus professor of neuroscience at Magdalen College, Oxford, for example, has made a direct link between the amount of fish people eat and their IQ, motor and social skills and ability to counteract depression. And it's not just about food. Just a 2 per cent reduction in hydration reduces concentration levels by between 10 and 25 per cent, so providing plenty of fresh water keeps people alert and able to concentrate.

Office as recruitment tool

The workplace is the physical manifestation of an organization's brand and many organizations use it to recruit and retain both staff and clients. When asked why the new Mintel office in London had a caravan for a tea point and a Tardis meeting room, the chairman replied that it made Mintel memorable and people wanted to come back. Other organizations use their workplace to live their brand. The new Red Bull office in London is, like the company's product, a high-energy experience. So keen was Red Bull to encourage collaboration between staff that they cut a series of voids into the floor plates of the three floors and dropped a slide and a floating staircase through the middle, offering visual and physical connectivity. There are also meeting rooms with ping pong tables, a modern bar and café, and a comfortable lounge area. And to top it all off, the terrace converts into a bungee jump bridge. Meanwhile Google's Zurich office employs a fire-pole as a 'quick route' between floors but has added a quiet room for contemplation with bathtubs (but with no water) into which employees can settle down and watch tropical fish swim languidly around a huge aquarium to the faint strains of somnolent ambient music. One of the wackiest meeting rooms has to be in Momentum, an innovation centre in a Dutch science park. A series of imaginative spaces encourage participants to approach their work from a new angle. The best is a meeting room with a deliberately low ceiling that forces people to sit in a sunken pit in the centre of the room. And if things get too much, there is always the screaming room – a soundproofed room with reflective panels where people can really let their frustrations out.

These types of facilities are great talking points for employees and customers alike and help to embody the company's brand. While some of the wackier ideas might be beyond an SME's budget, the workplace should still aim to reflect the brand ideals of the business and be a draw for employees and customers. Corporate imagery, interior décor and furniture should all be selected and employed carefully. For example, a business with sustainability at its heart could look at using recycled furniture; a creative business might want to provide different types of workplaces, using beanbags or meeting 'beds'.

As an organization grows and acquires other businesses, the workplace plays a key role in communicating the brand ideals to new employees and helping them adapt to the new culture of the merged business.

Work has left the building

While most of a facilities manager's time is spent focusing on the workplace, with people increasingly working everywhere from trains and planes to libraries, client sites and their kitchen table, facilities managers support work wherever and whenever it takes place. Organizations introduced flexible or agile working policies largely to reduce the cost of their real estate in the face of economic challenges, but it has also proved to increase people's productivity and also their general well-being and work–

life balance. Good collaborative technology is key to ensuring that people can work seamlessly wherever they are. But mobility *within* the office is as important as mobility *away from* the office and many organizations provide a range of spaces, from hot desks to café-style meeting tables and beanbags, backed up with WiFi, to ensure that people work in the spaces which suit them best. This not only improves their productivity but ensures a more efficient use of the space: desks in large office buildings are thoroughly underused, with the typical desk utilization being about 50–60 per cent. In other words, desks are empty for 40–50 per cent of the time that they are available and being paid for. As well as the cost of this poor utilization there is also a significant environmental issue given that this empty capacity is being lit and cooled all the time, generating CO_2 even when nobody is there. As the guardian of an organization's sustainability credentials, the facilities manager has a constant eye on making the best use of assets.

Business as usual

FM may be seen as a support function but it is also a business-critical department with responsibility for developing, practising and enacting the business continuity plan, dealing with everything from natural disasters to technological crises, terrorism and man-made disasters. Facilities managers manage the evacuation procedure and alarm systems, and liaise with the police and counterterrorism officers. They are aware of anything going on in the area. They must gather intelligence and coordinate the security teams on site. FM providers will be expected to get staff get up and running, and ensure that the site is operational.

UK terrorist threat levels are still a serious concern and pose a constant threat to premises and employees. Facilities managers must be capable and fully alert to potential terrorist threats. Even hoax threats can cause inconvenience and financial loss. All bomb threat calls, whether genuine or hoax, constitute a crime and should be reported to the on-site security team and the police.

Outsourcing FM

Within an SME, FM may be part of a PA or office manager's role. As the business grows, it may become a discrete job role but there comes a time when many organizations look to outsource their FM to external experts. Cost reduction, increased efficiency and the expertise, knowledge and support gained from a specialist provider are all key benefits and the organization can then concentrate on its core business. Outsourcing non-core sections of your business allows you to concentrate on more important elements such as growing the business and being flexible. In a recession, cost is critical. Outsourcing gives access to the skills and knowledge that will help reduce expenditure while improving service quality and improving many other FM-specific functions.

Ismena Clout is the Chairman of the British Institute of Facilities Management (BIFM), the leading professional body for facilities management. BIFM represents the interests of over 12,500 individual and organizational members and provides information and resources; training and qualifications and networking opportunities for the facilities management community. Facilities management professionals are responsible for services that support and enable business. Their roles can cover management of a wide range of areas including: health and safety, risk management, business continuity, procurement, sustainability, space planning, energy, property and asset management. They are typically responsible for activities such as catering, cleaning, building maintenance, environmental services, security and reception.

Ismena is also Key Account Manager for powerPerfector, a role she has had since June 2009 where she focuses on partnering with Facilities Management companies around the UK. Prior to that she worked as a client side operational Facilities Manager for over 10 years and in that time was Property Manager for Lend Lease Europe and Facilities Manager for HarperCollins Publishers, Hat Trick Productions and iTouch plc.

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PART SEVEN
Leading growth

Putting a price on mediocre management

7.1

Christopher Kinsella, Acting Chief Executive, Chartered Management Institute, reports on the pay-offs from investing in the development of management skills

Ineffective management could be costing UK businesses over £19 billion per year in lost working hours, a recent survey of workers showed. The Chartered Management Institute (CMI) conducted the research to underline the risks to organizations of weak management – an issue that, while recognized, is still not being addressed urgently or thoroughly enough.

The financial burden of weak management

This particular study looked at the amount of time 2,000 employees across the UK feel they waste at work owing to working with managers and leaders who don't perform efficiently. Three-quarters report losing almost two hours out of their working week and the worst management practices responsible for this time lost were unclear communication (highlighted by 33 per cent); lack of support (also 33 per cent); micro-management (26 per cent); and lack of direction (25 per cent).

Taking the average hours wasted in a week across the 48 weeks a year that the majority of workers work, this equates to a loss of £900 per employee per year; a total loss to UK plc of £19.3 billion, calculated at a median value rate.

The numbers highlighted by this survey, while disappointing, are unfortunately not particularly surprising. Only one in five UK managers holds a professional management qualification, so a significant part of the problem is that those who are performing inefficiently are simply not being provided by their employers with the skills and knowledge to do the job in hand. There is also reluctance among managers to pursue professional development opportunities in the field of management and leadership, despite the benefits it brings in terms of salary and employment opportunities.

Building a business case for management and leadership development

At a time when businesses are struggling to survive and the public sector is making cuts left, right and centre to help reduce the national deficit, we need the fact that weak management is costing businesses and other organizations such a staggering amount annually to propel those at the top levels of management and leadership into action. However, the incredibly challenging economic climate also means that, when faced with the figures above, many organizations and individuals understandably complain that the funding needed to develop the skills of managers simply isn't available at present.

This is one of the many reasons that, as the body committed to the professionalization of UK management and managers, we recently embarked on the most in-depth and far-reaching piece of research into the business benefits of management and leadership development ever conducted. We want all our member organizations and our individual members, along with the wider management community, to understand why management and leadership development is so incredibly important to organizational success and to equip them with the information they need to build a business case for investing in management and leadership development.

The link between people performance and organizational performance

Working in partnership with HR Consultancy and People Performance Company, Penna, and the Henley Business School, we consulted almost 4,500 managers, including 300 CEOs and 550 HR managers, asking about all aspects of current practice. The resulting report, 'The Business Benefits of Management and Leadership Development', spells out how organizations where management and leadership development activities take place see increases of up to 32 per cent in people performance and 23 per cent in overall organizational performance. This holds true across all sectors and sizes of UK organizations.

Management abilities were shown to be clearly linked to organizational performance. In high-performing organizations 80 per cent of those consulted rated the people they work for as effective, whereas in low-performing organization less than one in four (39 per cent) managers were rated effective. Looking across all organizations, not far off half of managers – 43 per cent – rated their own managers as ineffective; a pretty damning summary of the UK's management abilities.

As you might expect, high-performing organizations spend 36 per cent more on average on management and leadership development per manager per year than low-performing organizations (£1,738 compared to £1,275). The mean organizational spend per manager was estimated at £1,414 per annum. Looking across sectors, managers in public sector organizations have £1,515 on average spent each year on their management and leadership development. The private sector is slightly behind at £1,416 and not-for-profit sector organizations spend just £1,133.

The wrong types of training targeted at the wrong types of managers

Many employers actually are, therefore, investing in management and leadership. In fact, a staggering 26 different types of management and leadership activities were reported, with the average manager exposed to six different types over the last three years. While it's tempting to welcome the news that so much activity is taking place, further investigation into the issue found that the types of training being offered are often not the right ones to secure a return on investment in management and leadership and that managers taking part in development activities aren't seeing benefits or improvement.

Accredited learning and qualifications, including MBAs and professional bodies' qualifications, are rated as having the most positive impact on individuals' performance, yet there is still widespread reliance on 'on-the-job' experience and short courses which are much less impactful. The effectiveness of different types of training also varies between particular management levels. For example, many CEOs wish they had had access to coaching earlier in their careers, while professional qualifications are seen as particularly effective for new and junior managers.

The key to getting it right

One of the report's main conclusions was, therefore, that a much more strategic approach to investing in management and leadership development needs to be adopted by most organizations. Financial investment alone is not the deciding factor in the impact of management and leadership development. The way to maximize performance and return on investment is for all training to support business priorities, with the skills and behaviours being learnt resulting directly from business needs.

Development opportunities should be reinforced through practices such as performance management and competency frameworks. Top-level commitment is also critical: CEOs and senior management must show that they are committed to their own learning as well as that of their managers and they need to act as role models. Regular measurement and evaluation of what is being implemented also proved to be vital to gaining the highest returns on investment.

A case in point

An organization participating in the research which exemplifies why taking a strategic approach is so important, and how to go about doing so, is AstraZeneca.

Steve Bottomley, head of planning, human resources at the company, explained to us, as part of the research project, how structured, integrated business planning and HR processes enable AstraZeneca to measure and develop their people capabilities to meet business requirements.

The business strategy is reviewed annually alongside the HR and people strategy so that priorities for people development can be established. Current people priorities are to:

- achieve a step change in leadership and management capabilities;
- deliver key capabilities across the organization;
- improve employee engagement and build a high-performance culture;
- improve the strength and diversity of the talent pipeline;
- acquire and retain key talent.

In each one of these people priorities, management and leadership development has been identified as a key enabler to achievement.

This process means that the senior team is completely involved from the very beginning – the executive vice president for HR presents the people strategy and people priorities alongside the business strategy to the board at the outset. In addition, with the HR leadership team, the measures of success against each of the high-level people priorities are identified and agreed. Progress is then tracked on a quarterly basis.

Similarly, measures of success against the HR strategy are agreed upfront and these are also reviewed quarterly. To support this, the Learning function produces and reviews a 'Learning Dashboard' on a quarterly basis. This means that, from the annual employee survey, for example – something that Steve feels is crucial for this sort of evaluation – AstraZeneca is able to understand the employees' views on its leadership and management performance.

Secrets of success

So, what can employers take from this research in summary and practically implement to address weak management and take advantage of the business benefits of management and leadership development?

- The importance of evaluation cannot be underestimated. What measures do you use to help ensure that your development activities are aligned to your business targets and achieving maximum impact?
- Qualifications must 'hit the sweet spot' and must be regarded as the most effective type of management and leadership development. How much emphasis is currently placed on qualifications as part of your people development programmes? Have you considered opportunities for your managers to have their skills accredited?
- A rich learning environment adds huge value. Given that there is a reliance on on-the-job training, are you providing a sufficiently strong learning environment through the use of coaching, access to e-learning resources and external networks?
- Management and leadership development priorities must be directly linked to overall business strategy. In addition, how involved is your senior team? Are they leading by example?

Reaping the benefits

Given the cost of weak management, investing now in improving management and leadership skills and educating managers and leaders is absolutely key in terms of individual business success, in terms of delivering effective public services and in terms of helping the UK deliver on a world stage.

The good news is that organizations which are investing strategically in management and leadership development are already reaping the benefits through improved and higher performance. There is a blueprint here for success and it is within all organizations' own power to improve things for themselves – by investing in management and leadership development wisely, employers can make a real, measurable difference.

Perhaps most importantly, we have now established the clear link between better managers and a better-performing business. Who, under the current economic conditions, can say that an increase in organizational performance of 23 per cent isn't something they want a piece of?

To read the full 'Business Benefits of Management and Leadership Development' report and more examples of what organizations are already doing, visit www.managers.org.uk.MLDbenefits

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Leading the growth cycle

7.2

Success or failure depends on how an enterprise is led at each stage of its growth, argues Allison McSparron-Edwards at Consultrix

As companies grow they tend to follow a corporate life cycle including creation, growth, maturity, turnaround and decline (Kimberley *et al*, 1980). In tandem it appears that, in order to be successful in each stage, companies need to employ different types of leaders, including creators, accelerators, sustainers, transformers and terminators (Ward, 2002). The challenge for business leaders is knowing how to identify their leadership behaviours and whether or not they are appropriate to their company's growth cycle.

What drives business failures or successes?

A recent study by the Bank of America found that 90 per cent of small business failures were due to managerial incompetence. Unfortunately, this is supported by the fact that in the last 10 years, many Fortune 500 and Fortune 1000 companies filed for bankruptcy. It appears that the very same managers who built successful companies were the ones who often, in the long term, failed them. Their leadership style, which may have suited one stage in a company's life cycle, may not necessarily have suited another.

The typical corporate life cycles, and relevant supporting leaders (Table 7.2.1), are as follows.

Creation, supported by creators

The strategic priority for start-ups is to take a product or service to market in the shortest time possible. In order to survive, the start-ups will often have chaotic and frenzied cultures which create environments that are flexible, having little bureaucracy, staff or systems. Their creative entrepreneurial leaders will know clients, suppliers and employees individually and are excellent problem solvers.

TABLE 7.2.1 Corporate life cycle and matching leadership styles (based on the work of Andrew Ward, 2002)

Cycle	Creation	Growth	Maturity	Turnaround	Decline
Strategy	Speed to market	Rapid growth	Maximizing market share	Halting destructive behaviours	Realizing value
Focus	Internal	Internal/external	External	Internal	Internal
Leadership style	Entrepreneurs	Accelerators	Sustainers	Transformers	Terminator
Personality	Charismatic Dominant Autocratic	Good communicator Dominant Delegator	Participative leader Delegator Strategic visionary	Dispassionate Analytical and detail orientated Team player Leads by example	Skilled people handlers Motivators Good communicators Doers
Behaviours	Driven Visionary Passionate Energetic Adaptable Focused	Systematic Focused on growth Great internal/ external communicator Can scale systems Takes incremental steps to achieve the vision	Predictability rather than flexibility Reduces chaos Initiates incremental changes to reiterate and refine the mission Constantly seeking improvements Unbridled enthusiasm to motivate employees	Halt the decline Re-creation from existing declining base Redefining the mission Changing processes and direction Overcoming resistance to change Unlearning behaviours Unbridled enthusiasm to motivate the 'troops'	Short term focused Address uncertainties and resolve them Manage employee concerns and expectations

Cycle	Creation	Growth	Maturity	Turnaround	Decline
Issues	Focus too narrow Failure to manage working capital	Takes fewer risks Becomes more bureaucratic	Bureaucracy increases Loss of nimbleness	Loss of impetus when transformer 'moves on' Product obsolescence not overcome	The rumour 'mill' Loss of motivation
Examples: in wider marketplace	Steve Jobs: Apple	John Chambers: Cisco	Robert Haas: Levi Strauss	Archie Norman: ASDA	Dubinsky and Hawkins: Palm PDAs
Typical size of agencies found in various parts of the life cycle	1–12 employees	13–30 employees	30 + employees		

Growth, supported by accelerators

The next strategy will be to pursue rapid growth, which often stretches and strains the business's existing capabilities and systems. To support accelerated growth leaders must focus on internal issues and add discipline and structure to the business, but without destroying the company through under- or over-investment or risking losing its innovative culture and values.

Maturity, supported by sustainers

Having grown rapidly, the organization now needs to focus on the external market and understand how to strategically win and keep market share. Leaders need to understand that maintaining the status quo is insufficient as, ultimately, younger, hungrier businesses will steal their hard-won market share and the business may go into decline. Unfortunately, not all companies can sustain the maturity phase and, potentially, decline and annihilation can follow.

Turnaround, supported by transformers

In this phase the strategy must be to reverse any decline or face ultimate extinction. Otherwise falling sales, assets being sold off, cost reductions and lower investments will create a vicious downward spiral of inactivity resulting in bankruptcy. Leaders need to understand how to transform their companies and get them out of the 'rut' in which they have become entrenched. Poor routines or negative scripts have become embedded in the organization, causing narrow-minded thinking and a loss of creativity and innovation. Their job is to help people 'unlearn' old scripts, to challenge the status quo and to bring fresh perspectives to the business, thereby creating new profit opportunities.

There is a need to re-examine what was right in the creation stage (chaotic and creative environments; flexibility and a lack of bureaucracy) to ensure that old (yet good) habits are reinvented/updated and made relevant once again to a maturing company. Leaders can empower people by talking (and listening) to their employees and by encouraging them to create and develop new solutions based on their hands-on experience of what clients, and the markets, really need.

Decline, supported by terminators

At this stage in the business cycle the strategy has to be to realize what little value there might be left in the business. In our shrinking world where Sheth's 'Rule of Three' (Sheth and Sisodia, 2002) prevails, there can only ever be three major competitors in any given market. The result is that the leader needs to work out how to maximize value: whether by selling to a major player, merging to achieve scale or breaking up the company into its valuable component parts.

Are leaders born or made? Nature vs nurture

Having identified that corporate growth cycles require different leadership styles, the million dollar question is: 'How do we know what our leadership styles are and can we adapt them or not?'

In the early part of the 20th century there was a belief that leaders were born with certain *traits* and that only such individuals could ever be successful. Such traits included good communication and human resource skills, ambition, the ability to manage stress and a high tolerance for uncertainty.

By the middle of the century the emphasis was not just on traits but on *leadership styles* based on the view that leadership processes did not reside solely in the person, but could be cultivated as distinct patterns of behaviour. Leaders could 'learn' whether to exercise, for example, an autocratic or democratic style and indeed often learnt both good and bad 'styles' from their immediate bosses.

It was also recognized that individual leadership styles were affected by an individual's personality traits, as well as those of subordinates and the dynamics of the situations within which they work, ie a thriving vs a failing company. Indeed, Vroom and Yetton (1973) suggest that leadership is all about making decisions, creating a vision, setting goals, developing strategies to reach the goals, and making efforts with followers to achieve them. Effective leadership requires taking *situation-based decisions*. An individual will be accepted as leader by their subordinates only when their ideas, suggestions and advice are seen to be appropriate to the situation. In a sense leaders cannot be selected or trained, but only 'made' by others. Leaders are also, therefore, only as successful as their followers!

Latterly the cult of the *charismatic leader* has focused on how extraordinary leaders achieve outstanding results through follower motivation, commitment, loyalty and respect. Such charismatic leaders have powerfully attractive visions of the future and an ability to mobilize the emotions of their followers.

Today it is acknowledged that traits, behavioural styles, situations and charisma alone are not enough to make someone a successful leader. Modern leaders also need to have *cognitive, affective and administrative skills* such as the ability to diagnose problems (and suggest solutions), personal awareness, interpersonal skills and the ability to implement decisions.

Leadership development

The general consensus is that we are all born with certain characteristics which we must learn to recognize and develop or, if necessary, compensate for. There are a variety of ways of identifying leadership talents and limitations, ranging from:

- psychometric profiling tools such as Myers–Briggs, DISC;
- 360° feedback questionnaires;
- critiques from third parties, eg non-executive directors.

Having identified leadership styles it is important to recognize what leadership approaches might best suit the leader's current organization. This can be ascertained by:

- board-level discussions;
- corporate profiling tools;
- management consultants;
- peer discussions;
- benchmarking against other organizations.

Just as all individuals aren't born with the ability to play football like Pele or George Best, or sing like Caruso or Pavarotti, people aren't all born with the ability to lead. Different personal characteristics can help or hinder a person's leadership effectiveness and most people need formalized programmes to help them develop good leadership competencies. Yet, everyone can develop their leadership effectiveness. Achieving such development takes focus, practice and persistence and is more akin to learning a musical instrument than reading a book.

Development occurs best when incorporating a variety of learning scenarios, including:

- leadership development programmes (preferably over an extended period of time, 6–12 months) covering how to take responsibility, gain focus, develop life purpose, be action orientated and develop effective and achievable goals;
- experiential learning, gained through mentoring, attending peer or sector specialist groups or shadowing more experienced individuals;
- personal development involving visioning (the development of a clear image of the aspired future for an organization), goal setting, reflective journalling, executive coaching and confidence building;
- regular challenging and mentoring by advisers such as non-executive directors or executive coaches.

SMEs

Smaller businesses follow a similar growth pattern to larger enterprises but in miniature.

Many small business failures are caused by a lack of self-awareness, by leaders, of their strengths and limitations. Those that recognize what they do well (and don't do well) are able to build a team around them that builds on their strengths and compensates for their limitations. Indeed some, recognizing that their strengths are too narrowly focused, relinquish day-to-day control of the business to others better able to manage the differing requirements of a growing business.

Business owners must understand how to assess the qualities of their senior management teams and how well members of the teams interact with each other. Belbin (1981) suggests that every team needs a mixture of individuals with different skills to be truly successful. A mistake that leaders often make is to recruit in their own image, resulting in a surfeit of some skills but a deficit in others. Leaders can accelerate their successes when they realize that *they* don't need to have all the answers and skills but definitely need to surround themselves with those who do.

Lastly, leaders also have to recognize that individuals who have helped them achieve one stage in a company's growth cycle may not have the necessary skills to help the company move to the next stage in the cycle. Recognizing this conundrum can test a leader's loyalties and people management skills to the limit but needs to be dealt with if the company is to continue to grow.

The challenge

Do you know where your company is in its growth cycle? When was the last time you stood back and rated your performance and that of your management team? Are you and your team best suited to running your company in its current stage of growth? If yes, great news! If not, now is the time to take action and resolve your concerns so that you, and your company, continue to achieve your strategic goals.

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Learning for entrepreneurs

7.3

How can entrepreneurs learn what they need to solve their next challenge, asks Dr Joanna Mills at the Centre for Entrepreneurial Learning (CfEL) at the University of Cambridge School

Effective entrepreneurs need to be outstanding learners in order to start up new ventures, survive the challenges of the early years and then thrive and grow their businesses. Just what they need to learn will largely depend upon the stage of growth of their venture. For example, a technologist with a great idea will have much to learn about business and developing a commercial strategy that will successfully transition them from technologist to entrepreneur, and a CEO of a venture poised for growth will have to develop key skills to enable them to develop a team that can attract new customers and penetrate new markets. But just how might these busy individuals learn effectively when there is just so much else to do?

Often, within entrepreneurship and business, learning is most often associated with hard knowledge of finance, marketing, strategy and so on, and often the perception is that this can be best acquired through attending rigorous (and potentially expensive in terms of both cash and time) programmes at universities or through a myriad of other providers. However, just as much knowledge may be gained from other cheaper, more accessible and less time-consuming sources, if entrepreneurs are open to learning and aware of the opportunities around them.

It's also not just the hard business knowledge that's important. Exceptional entrepreneurs are also extremely self-aware, highly socially skilled (entrepreneurship is, after all, an inherently social process), action oriented, and make use of intangible tacit knowledge, intuition and instincts to make decisions on opportunities and the way in which they manage and grow their ventures. In effect they are as resourceful in terms of their soft skills as they are within their ventures!

So to have real resonance and value for the entrepreneur, learning opportunities need to include these 'ingredients' in the mix in time-effective ways that ideally will also help them in more practical ways to develop their businesses. This article sets out a collection of thoughts on sources of learning for entrepreneurs, a range of learning questions, and some tools that entrepreneurs and CEOs can use to identify and make learning opportunities effective every day.

Self-awareness – do I know what I know?

More important than knowing what you do know is knowing what you don't! For many entrepreneurs and CEOs, and often for reasons of time, this just isn't apparent until some kind of critical event is either on the close horizon or actually occurring. These events may, of course, be positive, for example recruiting the first member of the team when you need to start considering employment contracts and human resource processes; but often they are not, and the more serious, such as losing a critical customer, have a serious impact on the venture and at this point any kind of intervention may be too late.

So what can the entrepreneur or CEO do to develop self-awareness? Well, actually quite a bit. To start, CEOs and entrepreneurs need to be disciplined and objective about their own strengths in terms of skills, knowledge, personal style and the way they lead their ventures, and also realistic about what is missing; only through this can they think clearly about whether they look to develop themselves to fill the gaps or look to others, either members of their team, or external support from advisers or mentors, before these critical events occur. Getting feedback from others and embracing it can be both insightful and valuable here. Do they see you in the same way that you see yourself? Those who are self-aware will reflect on this to really understand what it means.

Self-awareness is also about being totally tuned in. So listen closely to what team members and others are saying and also listen to yourself – regularly, and reflect upon not only what you say but also whether you listened, and listened well. Listening and self-awareness are foundation stones of not only entrepreneurial leadership but business leadership in general, so these should be carefully nurtured. Not only that, but good listening, especially when interacting with customers, can mean that entrepreneurs don't miss out on valuable business opportunities.

Hard knowledge – customers and competition

Ventures grow through building customers, and so learning from them (whether they be current, potential or those who have been lost along the way) is fundamental for growth, and really learning from them means actually interacting with the right questions in mind as well as listening to their responses.

For existing customers, learning why they buy from you, how you can build upon and improve the business relationship, who the decision makers are and what their 'hot buttons' are, and whether there might be other products or services that are relevant for them, are all fundamental to developing the value proposition. With potential customers it's more about understanding needs and problems and who to connect with, but for lost customers there's much to learn from why they moved away.

Learning from employees is also vital in this respect – especially those on the frontline, who interact with customers on a regular basis. Encouraging them to be alert to the same questions is part of the key to this learning, but more importantly the role of the entrepreneur or CEO is to create an open environment where this learning and knowledge can be shared, acted upon and embedded within the venture for the longer term.

Taking a long hard look at competitors also yields much knowledge for the entrepreneur. Although it may be hard to access detailed customer information without resorting to unethical means, much can be learnt from what is openly available, such as market data, product information, marketing material, job adverts, annual reports, case studies and so on, and much can be learnt about the way they do business, the way they operate, the levels of service they provide and so on. Questioning this information and asking why they are effective in what they do is a valuable part of learning which can help an entrepreneur to differentiate their value proposition effectively from that of others.

Networks – social and collaborative learning

As mentioned earlier, entrepreneurship is an inherently social process, so learning opportunities and approaches that arise from social interactions may well be more apt for the entrepreneur than embarking on a solo learning activity. We have already discussed learning from specific social interactions within a venture or with customers, but wider business networks also have a role to play. Network groups (both online and face to face) are an obvious start point, and all entrepreneurs are encouraged to be a part of a business network group either locally or within their industry sector. International networking opportunities through either conferences or online forums have obvious additional benefits for ventures seeking growth into international markets, both in terms of avenues to opportunities and also in terms of general international business knowledge and cultural dimensions.

In the UK we have a proliferation of networks, many of which organize events with eminent guest speakers from which one can learn about a particular topic; however, the most important feature of a network for the learning entrepreneur is that you have the possibility to meet and connect with other entrepreneurs who are in similar situations and often facing similar challenges and dilemmas of growth. Some networks may also arrange small, confidential but informal discussions where participants can openly discuss the real challenges and learn from each other in relaxed but facilitated, trusting and safe environments. Even if such learning opportunities are not openly provided, developing your own social capital and building personal contacts with other entrepreneurs can result in both a valuable support network and the opportunity for peer-to-peer learning, which also counteracts the feelings of isolation.

Experience – your own and that of others

Experience is central to the way in which entrepreneurs learn, and the link between experience, knowledge, learning and action is well documented and researched. Entrepreneurs learn through their own experiences of how they deal with the complex challenges of daily entrepreneurial life and gradually build up stocks of knowledge and skills, but they also learn through the 'critical incidents' mentioned earlier where

there is scope to learn from the actions and approaches they take and what works and what doesn't.

Although learning from experience may seem very individual, real consolidation of this learning arises through reflecting upon it and actually articulating and sharing both the experience and the learning from it either with peers or, for example, coaches and mentors. This sharing also has the added benefit of perhaps hearing the experiences of others, but also of the support and encouragement it can provide.

As well as learning from one's own experience, all around us there are role model entrepreneurs from whose stories there is much to learn from how they have tackled the challenges of start-up and growth, the mistakes they have made and what they have learnt. There are many example role models freely available on the internet as videos, through their blogs or through their biographies published as books – these are usually the ones who have had stratospheric success, but there is also much to learn from role models who are only a few steps ahead and have recently emerged from one of the many challenges of start-up or growth and whose perspective may have a rawness and freshness that provides a powerful learning perspective.

Whether the 'learning' entrepreneur has the opportunity to talk directly with role model entrepreneurs or watch or read what they have to say, much can be learnt from considering, for example: what personal factors enabled them to navigate the challenges successfully; what approaches were effective for them in working with customers, their team and other stakeholders in their ventures; and probing the why. The ability for entrepreneurs to relate to role models and pick up on both the verbal and tacit knowledge gained and then to consider how they might apply this learning to their own situations is a truly valuable learning skill.

Learning to learn – entrepreneurially and effectively

All of the ideas above are common sense and freely available to all entrepreneurs alongside the more formal learning programmes. So what is the secret of the most effective entrepreneurs who are outstanding learners?

At the heart lies the fact that they have learnt to learn. The skills, knowledge and learning that they might require to run a start-up, a new venture in its early years, or a growing business may be different at each step, but these effective entrepreneurs have embarked on a learning journey alongside their entrepreneurial adventure. To truly learn, entrepreneurs need to be open to learning at all times, being alert and recognizing opportunities for learning just as they originally recognized the opportunity for their venture. Just as business opportunities are all around us all of the time, so are learning opportunities. Entrepreneurs need to build a full awareness of this and of their own processes and methods of learning. Not only that, but entrepreneurs must actively participate in learning, by sharing openly (within the limits of any confidentiality, of course) and contributing to collaborative learning and through an extreme attentiveness to the contributions of others, what they read and hear from role models, customers and others.

Finally, reflection is important. Entrepreneurs should take time to reflect on the actions they have taken and the experiences they have and write these down in a journal or electronically to ensure that their significance and the learning are not lost, and to capture ideas and action plans for future personal entrepreneurial learning and development.

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Too much control, too little freedom? The case of the micro-manager

7.4

Recognizing the impact of management style is pivotal for sustaining innovation and growth, says Professor Ken Russell at Aberdeen Business School

Some initial questions

Could you be a micro-manager and not realize that this is the case? (Most micro-managers are unaware of their behaviour and its consequences)

Do your personal insecurities about the success of your business tip into an obsessive compulsive disorder where you are continually meddling in the work of your staff?

Is your management behaviour dysfunctional to the extent that it is damaging to your health and wealth?

Micro-management is often mentioned in everyday language and yet it is not a term that often crops up in academic journals (other than it being related to the management of micro firms). This short article is an attempt to decode micro-management as management style. One of the motivations that SME owner-managers have in setting up their own business is that they feel stifled in a corporate context and have a desire to have more control over their own destiny. A potential danger inherent in the desire for control is that this can translate into a situation where micro-management prevails. Here we examine situations where micro-management may arise and consider the detrimental effects. The aim of the chapter is to provide some issues for reflection and perhaps initiate some changes in management style if deemed appropriate.

Performance management in its broadest sense can be achieved through some combination of plans, standards, values, objectives, targets and supervision, with related staff development to support business development. If planning and the setting of standards are less well developed in a growing business, much of what drives performance will relate to the direct interventions and values enacted by the owner-manager. A lack

of appropriate management information systems may also result in frequent interactions to check on progress. In an attempt to maximize flexibility there can be a danger that supervision becomes the dominant mode of performance management and the resulting level of supervisory interactions may become overbearing. A failure to develop staff and give them appropriate levels of responsibility and commensurate authority will ultimately form a brake on business development.

What is micro-management and how does this relate to management style?

Fundamentally, management style is a term that is used to describe how managers make decisions and how they interact with subordinates.[1] In essence, micro-management involves disempowerment and taking decisions away from those who could usefully make them. There are a few things that employees universally expect and deserve in their roles at work:

- They want to know what is expected of them – that they feel responsible for outcomes.
- They want the tools to do the job (resources, training and development).
- They expect to get feedback on how they are doing and support to help improve things.
- They want to be recognized and rewarded for their contribution (this could include promotion among other things) – they want to have a meaningful sense of the significance of their job.

A useful starting point is to consider how recipients of micro-management may feel as a result of the style of their managers. Micro-management will undermine the expectations outlined above and will result in some combination of the following:

- Staff feel a lack of trust and respect in them to do the job.
- There is diminished scope for personal growth owing to a lack of effective delegation.
- Staff do not feel a sense of ownership for success,[2] leading to a lack of confidence and hence a self-fulfilling prophesy (and learnt helplessness) that they not be able to complete tasks effectively.
- There is a blurring between what is their job and that of the manager, often due to the manager retrieving tasks from the subordinate to do themself rather than developing the member of staff to complete the task.
- There is no formal training given to staff and it is often fragmented, done grudgingly or half-heartedly owing to a lack of patience.
- There is a strong sense that the manager is meddling/checking up on progress too frequently and questioning the work of staff.
- The manager operates on the basis of fear.

In summary, the consequences will be demotivation, higher staff turnover (especially of the more capable staff), lower performance (partly due to wasted time consumed in micro-management), lower levels of innovation and hence slower growth of the business than would otherwise be possible, and a vicious circle that is not broken without some genuine reflection on what is happening.

Points to ponder

Do you observe any of these symptoms in your own organization?

Are you willing to do something about the causes of the symptoms?

Do you realize that your job is about creating the environment in which things get done rather than directing and controlling everything?

Are you deluding yourself about the true state of affairs with respect to your management style?

One of the inherent problems with micro-management is that often the perpetrator is unaware that they are micro-managing and they will see their own actions as being entirely driven by good intent, for example to provide a speedy service to their customers.

How to recognize if you are a micro-manager

The following questions will help you to reflect on whether you have micro-management tendencies:

- Nobody likes to be labelled as a control freak but do you feel a need to know what members of your staff are doing on a frequency that is measured in minutes and hours?
- Are you snowed under with work because you do not have an effective process for delegation – how often do you find yourself deciding that it is quicker for you to do the work yourself than to explain how to do it to a member of staff?
- Do you specify how to do things as well as what needs to be done so that there is no room for staff to demonstrate initiative or be creative?
- Are you aware of the unique value-added contribution that different roles bring to the success of the company (do you avoid role ambiguity and overlap)? (There is an old adage of why keep a dog and bark yourself – not that I am insinuating that employees are dogs but there is a danger of hiring someone and then effectively doing their job for them because you cannot let go.)

- Are you a perfectionist and think that nobody else could do the job as well as you?
- Do you dwell overly on details and fail to see the big picture such that you are in constant dialogue with staff, which benefits your desire to know the minutiae but it does not help them to function in their role as it is merely a distraction?
- Do you perceive that members of staff are keeping their heads down in an attempt to avoid contact with you, ie they do not want another grilling and to engage in yet another round of explanations?
- Do you feel that you are indispensable (even though you own the company) and that nobody else could do the job as well as you given that you started the business and built it up to be what it is today (as opposed to what it could become)?
- Are you clear why staff are leaving your company and then perhaps perform well elsewhere?

If you really want your business to grow, it is important to spend some time reflecting on the questions outlined above. Without this reflection it is likely that some of the patterns/habits (for that is what they are) will not get broken. Change will only be possible when there is a willingness to let go and trust in others to do the right thing. Once there is a recognized need for change and the desire for it to happen, you can move forward. The following section of the chapter is an attempt to provide some guidance on what to do to break the vicious cycle of over-managing and under-performing.

How to avoid micro-management continuing to be an issue

The 10 points below are intended to address the causes of micro-management. The choice of those that are worth pursuing for you will depend on the analysis arising from the questions presented in the previous section and the current situation in your organization:

1. *Recognize that you are not the only person who can accomplish things.* If you are content with the business as it is, don't bother to read the rest of this chapter. If you desire growth and a sustainable business, you have to delegate and trust others.
2. *Determine what you can delegate and design jobs around this.* This process is not about working with a piecemeal collection of activities – it is about creating genuine roles that have delegated responsibility and authority for the achievement of outcomes.
3. *Hire the right people.* Jim Collins in his book *Good to Great* stressed the importance of getting the right people on the bus. Make sure that you create a process that delivers a good fit between the requirements of the business and whom you hire. If you really want to grow you may well have to hire at a more senior level rather than expect people to grow into the role.

4. *Induct staff.* New staff need to know what is expected of them and what is acceptable performance – provide the parameters for performance rather than over-specifying the 'how'. Of course, there may be procedures that must be followed in the conduct of business; however, you should look to draw on the incoming expertise and experience to develop improvements.
5. *Don't give staff challenges and then solve them yourself.* Staff need the space to learn how to solve problems and tackle opportunities themselves. Focus on the 'what' that needs to be done and less on the 'how' when initiating a new project or objective. Encourage them to discuss solutions with you but don't take the learning opportunity away from them even if you could solve the challenge quicker yourself – always remember that it is their job and not yours.
6. *Be tolerant!* Staff will inevitably do things in ways that are different from how you might approach tasks/projects and make 'mistakes'. Treat these differences and mistakes as opportunities to learn.
7. *Build in training for staff.* Recognize that staff development will contribute to business development if properly targeted.
8. *Communication is a two-way street.* Seek feedback on how you can help to provide support but limit the frequency so that you are building confidence and not undermining it. Agree the frequency for feedback meetings. Give praise sincerely and publicly when it is due and give constructive developmental feedback in private.
9. *Use conversations to motivate people.* Address the concerns of your staff and value their input.
10. *Reflect on your practice as the owner-manager.* Recognize that as the business grows, the initial 'star culture' where everything flows through the founder cannot be sustained. You have to be prepared to delegate and watch out that those to whom you delegate don't become micro-managers themselves.

Summary

This brief chapter has hopefully stimulated some reflection on your management style (or that of your direct reports) and raised your level of self-awareness on the impact of this style on your staff, your personal well-being and the wealth-creating ability of your business. A number of symptoms, causes and preventative measures have been presented to help to counter and remove micro-management behaviours. It is important to take steps also to avoid 'back-sliding' into dysfunctional behaviour, so reflection on practice must be ongoing. Micro-management is never a good thing as it does not empower staff to be the best that they can be in contributing to building your business.

Notes

1 See, for example, Tannenbaum and Schmidt (1973).

2 See, for example, Martin (2002) or Manzoni and Barsoux (2002).

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PART EIGHT
Structures for growth

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How to franchise your business

8.1

Professor Roy Seaman at Franchising Development Services (FDS) looks at how franchising can put you on the fast track to growth

An increasing number of well-established and new companies are now giving serious consideration to the benefits of expanding their operations using the franchise option. Among the many advantages of franchising a business over opening a network of company-owned outlets are reduced costs, faster growth and a higher rate of dedication among personnel.

When franchising is well thought through, it can provide a perfect model for the owners of a business with genuine national or international potential, as well as an offer to investors who are seeking to emulate the success of what the originating franchisor is achieving. According to the latest NatWest/British Franchise Association (bfa) UK Survey, there are now 897 businesses operating franchised systems in the UK, which contributed £12.4 billion to the UK economy in 2010.

The bfa's director general Brian Smart adds: 'Franchising has demonstrated its inherent tenacity and stability, despite a tough climate. This means many more sustainable business start-ups and jobs have been created by franchising – further helping the UK economy get back on its feet.' The survey also revealed that compared to the recession in the early 1990s, fewer franchise businesses are trading at a loss. In 1990 only 70 per cent of all franchise businesses were profitable, but the figure today stands at 90 per cent.

Simultaneously, an ever-growing number of highly capable and competent individuals are looking to invest in owning and operating their own business under a franchise system. Therefore, in this pro-franchising climate, any successful business owner would be well advised to check out whether franchising is suitable for their business.

To do this, you must first understand whether your business is suitable for franchising. Does the business operate a proven concept that can be replicated nationwide? Have any teething problems been ironed out, and are all the systems and procedures in place? Is the business performing to replicable growth standards with a professional national-standard brand identity and corporate image?

Capital investment

Assuming your business has fulfilled these requirements, how do you go about franchising it? No short cuts should be entertained, as franchising only works where a company enters with the right levels of funding, management infrastructure and motivation. Where that exists, good franchise practices result. I suspect that many of those well-intentioned franchisors who fail have taken short cuts to franchising – trying to save money on the kind of professional consultancy which could have steered them away from miscalculations and injudicious moves.

During the early days of developing a franchise system, rather than a net flow of money coming into their business, the new franchisor needs to expect a net flow outwards. Support staff need to be paid and new franchise owners – also known as franchisees – recruited and trained. On average, franchise owners themselves cost between £5,000 and £10,000 each to recruit and will require substantial support while still generating little business and paying little by way of fees.

So how much capital is necessary for a prospective franchisor developing a franchise? The investment required will differ from industry to industry – a pilot scheme involving the opening a new retail outlet will cost much more than rolling out a franchise model for a 'man-in-a-van' operation.

Masterminding a professional infrastructure for franchising a business normally requires around £30,000 plus at least £20,000 for marketing, depending on the complexity of the business and the style and rate of expansion desired. A properly advised and constructed franchise development plan will normally have between two and four franchise owners operating within 12 months from such a budget.

Feasibility study

The first investment will be commissioning an evaluation analysis and outline franchise development business plan from a well-established franchise consultancy. In many ways this is the most important investment in the process of setting up a franchise. The study's twin goals are to analyse the business and its market, and to identify what modifications may be required to ensure its smooth franchise development work programme.

The work must identify the operation's systems, corporate strengths and altogether cover the 21 elements of a genuine business format franchise. There will be aspects that are vital to the success of the business which must be built into the franchise concept, there will be elements that must be removed or amended to ensure that the franchise relationship is fair and profitable, and there will be elements that will not affect the franchise either way – the work will recommend whether the latter be included or removed depending on the competing costs involved.

Franchise action plan

Provided that the business has genuine growth potential, has good profit margins and can be taught to others, there is normally a way to proceed. Then a franchise action plan must be developed and implemented. This will:

- identify the competition;
- identify the ideal franchise expansion method (job, management, retail) or if going global (area development, direct franchising, multi-units, defined territories);
- analyse and define the franchise package component needs;
- ascertain the true market value of the franchise package content;
- set out a detailed franchise development business plan;
- develop the requirement of an initial training programme capable of fully preparing a franchise owner for the launch of the business;
- set out ongoing support structures such as a franchise owner essential support services telephone helpline, intranet facility, marketing support possibly including personalized websites etc;
- identify financial support packages to assist franchise owners to meet the investment requirement and also tailored insurance packages.

For a business seeking to obtain membership of the bfa – and this is certainly recommended – the construction of the franchise must be performed with the requirements of its charter in mind.

Pre-sale documents

With the franchise package in place, now comes the time to set it down in print. There are a number of UK lawyers specializing in franchising, many of whom are affiliated members of the bfa who will be able to produce the appropriate franchise agreements.

Additional documents must also be designed and developed, including franchise owner manuals, marketing and promotional materials; also, intellectual property rights need to be secured before the final document is produced, which is known as the franchise prospectus.

Recruiting franchise owners

Once the franchise package is in place, the process of building a franchise network can start. It is at this point that having the correct strategy is absolutely crucial to ensure the business gets off on the right footing, as Tony Urwin, FDS North Regional Director, states:

Franchisors must understand the importance of a well-managed recruitment programme. Carried out correctly, this establishes the basis of a high-quality and well-motivated franchise network. Done wrong, it can sow the seeds of a franchisor's undoing.

Frankly, the recruitment of suitable franchise owners is one of the most time-consuming aspects of any franchise development programme. A precisely targeted marketing campaign must be developed and implemented and the results measured. Once the telephones start ringing and the inbox starts filling, each and every lead must be systematically and promptly followed up.

The franchisor should take the details and answer the questions of every enquirer and – subject to initial screening – send the documentation, usually a prospectus. Returned application forms should be processed, and subsequent interviews scheduled and conducted. The marketing efforts, screening process, relationship management and data collection involved can exhaust even the most committed franchisor.

Outsource or do it yourself?

Developing a franchise is a very challenging undertaking, and only advisable if you are armed with a wealth of practical experience and the best franchise consultant that you can find. You must engage those with a proven experience and the best track record of success. This would seem obvious, but it is surprising how many emerging franchisors consult help only after expending a substantial investment on failing to build a workable franchise package themselves. Accessing the franchise wisdom of more experienced parties is an insurance against having to retread these steps further down the line – a costly and difficult endeavour if franchise owners are already signed up, especially if the franchise agreement is far from what it should be and needs amending.

There is a whole host of weaknesses that can be easily avoided. These include lacking in professional presentation and behaviour, weak brand profile, undercapitalization, weak infrastructure for initial and ongoing training, lack of commitment to creating a genuine business format franchise, unproven systems, lack of continuity in key management and lack of effective communication with franchise owners.

'Overall success in franchising is not based on a small number of factors, but a combination of many criteria – applied at the right time, in the right way and in the right place', emphasizes FDS southern regional director Gary Rigby. 'Those who win in the long term do not do so by chance. They recognize the criteria that are most important, apply them and keep striving to deliver their best for both franchise owners and customers. Above all, there must be a balance of interests between franchise owners and franchisors where both parties to the partnership win unequivocally.'

Franchising does provide an ideal strategy for owners of successful businesses to follow. However, there is a well-trodden pathway and the key to success is to ensure that your franchise consultant knows exactly how to unlock the doors to your franchise development success.

Professor Roy Seaman, CFE, QFP, has been a tireless ambassador and highly regarded speaker for franchising since 1981, when he founded Franchise Development Services. Roy has helped to mastermind franchise consultancy advice and guidance to hundreds of British companies and has assisted many people to own a franchise.

For further information about franchising: website: fdsfranchise.com, TheFranchiseMagazine.net; tel: 01603 620301; e-mail enquiries@fdsltd.com

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Licence to grow

8.2

Mark Anderson discusses IP licensing as a route to growth

Intellectual property (IP) can be a company's most valuable asset. Astute management of IP can be more important to a company's long-term success than the management of conventional assets such as buildings and stock-in-trade, or even (dare one say it aloud) employees. It can also be a waste of money and resources. IP only has value if it is protected and managed in support of a clear business strategy. IP licensing (in-licensing or out-licensing) can make a valuable contribution to a company's growth strategy.

Bill Gates famously started his business by licensing, rather than assigning, the copyright in MS-DOS to IBM. This enabled him to grow his business by licensing the same software elsewhere.

The Nutrasweet Company, as it is now called, had a two-pronged IP strategy for protecting their artificial sweetener, aspartame. Initially, they protected the product with patents, but patents only last for 17 or 20 years. By the time the patents expired in 1992, they had developed a trade mark licensing programme. The company maintained its market-leading position by licensing diet drink manufacturers to use the name *Nutrasweet*®, which was trusted by consumers. More recently, other sweeteners, with their own brand names, eg *Splenda*®, have taken some market share. Take a look at the small print on the label, next time you buy a can or bottle of Diet Coke®. Some contain *Nutrasweet*® and others contain *Splenda*®. In both cases, the trade mark is being licensed to add value to the ultimate product.

IP can benefit growing companies

You don't need to be a large company such as Microsoft or Nutrasweet in order to benefit from IP. Last year, my firm helped a micro-business – a carpentry company that designs and makes five-bar gates for wildlife parks. The company supplied gates for one project, and later discovered that the customer had commissioned someone else to make gates to the same design for a second project. By asserting copyright and design rights, we were able to get the company compensation from the customer. Our client managed to maintain a business relationship with the customer and received further orders for carpentry products.

In all of these examples, the management of IP – copyright, design rights, trade secrets, patents and trade marks – has been an important part of a larger business strategy.

IP is not for everyone

However, IP management is not for everyone. Business managers do not need to become experts in the intricacies of patents and other IP – that takes years for even the brightest patent attorneys to learn – but they do need to able to engage with a certain amount of legal detail. This is necessary in order to take good strategic decisions about the IP, to give clear instructions to IP professionals and to negotiate advantageous terms in IP agreements.

Even more fundamentally, the business needs to be one that can take advantage of IP assets. Some small businesses are based on a very simple business model: make or buy-in goods at one price, and sell them at a higher price. The business may be managed by a single individual who spends their time in day-to-day trading activities, and who is not well equipped for sophisticated business planning. In such cases, investing in IP may be an unprofitable diversion from the core activities of the business. The author has encountered too many small businesses that think IP licensing is a quick, cheap way of expanding their business beyond its natural limits, or of shoring up a failing business. Some franchise propositions, aggressively marketed in the back pages of national newspapers, have fallen into this category.

You don't need to be a technology business to benefit from IP

Other businesses are better equipped to take advantage of the opportunities that IP may bring. A common misconception is that you need to be in a 'technology' business in order for IP to be valuable. If you are in a technology business, almost certainly IP will be important, but the reverse is not true.

Let's take some practical examples. Franchising was mentioned earlier. The most successful franchises are heavily dependent on IP protection and licensing. Typically, the franchisee obtains a trade mark licence, allowing them to use the franchise brand. They usually obtain a know-how licence, which gives them controlled access to a bible of confidential information about how to run the franchise. There may be a copyright licence in respect of artwork and marketing materials. Less frequently for high-street franchises, there may also be a patent licence, to allow use of patented technology.

A more technology-focused example is software licensing. One of our clients develops computer games, which it licenses to large gaming and betting companies for use on their websites. Another of our clients in-licenses third-party software, bundles it with its own software, and licenses the bundled package on to customers.

Skills required for managing IP transactions

What are the skills that are required for successful IP licensing? For present purposes, we are referring to the business skills required of a commercial manager, and not to the

more specialist skills of a contract lawyer or patent attorney. You will certainly need professional advice on IP transactions, but you cannot just leave the entire project to the advisers. Ultimately, a commercial manager should take the business decisions, lead commercial negotiations and take commercial responsibility for the deal.

A good starting point is to have a basic understanding of what IP is, and how it can be traded – usually by an *assignment* (outright transfer of ownership) or *licence* (permission to use, with ownership remaining with the licensor). An alternative business model is not to trade the IP, but instead to maintain it as an in-house resource, and as the basis for legal action against infringers if required. Simple guides to IP can be found on the UK Intellectual Property Office website, and the author of this article runs courses on IP subjects for non-lawyers.

It is useful for the commercial manager to become familiar with licensing practice in the relevant industry sector on issues such as whether to grant exclusive or non-exclusive licences, how to calculate royalties, and what royalty rate to charge. Many commercial managers pick up this information as they go along, but there are some useful courses, such as the licensing courses run by PraxisUnico for the UK university sector.

Finally, it is important for the commercial manager to know their way around a typical licence agreement. Experienced licensing professionals see the same points being raised time and time again in negotiations, and there are usually standard arguments on each side of the negotiation. For some types of transaction, eg sale of goods, the commercial negotiations tend to focus on a few key issues, including specification, delivery, price and payment terms.

IP licence agreements have equivalent issues to these, but also have a larger number of secondary issues that are commercially important and cannot just be left to the lawyers to decide. For example, should the licensee be allowed to include a 'royalty stacking' clause that allows them to reduce the royalties paid to you if they also have to pay royalties to a third party? Should the licensor give warranties of non-infringement of third-party rights? Should the licensee lose their licence if they fail to bring products to market by a defined date? These are just a few examples of the types of issue that are typically negotiated in a detailed licence agreement.

Some issues that business managers face

When deciding whether to in-license or out-license IP, a business manager may need to address the following issues:

- *Why?* Will protection and/or management of IP be a good investment in support of my business strategy? Can I run my business without investing in IP?
- *What?* Have I thought through the pros and cons of investing in different types of IP (eg patents or trade marks)? Have I researched the IP landscape to see what IP my competitors have?
- *How?* Do I have the skills and resources (in-house or external) to protect and manage the IP and to negotiate IP licence agreements?
- *Costs.* Do I have a budget for legal and, if appropriate, IP filing fees? What will I do if a dispute arises under the licence agreement, or I face competition

from unlicensed competition? Will I have to take or defend legal action, or can I get my licensor or licensee to bear these costs?

Plan your deal terms before you negotiate

Finally, a heartfelt plea from an IP licensing lawyer: don't work out what deal terms you want in the middle of licensing negotiations. Establish in advance what terms you aspire to achieve, and your 'walk away' positions. This author has seen too many negotiations where deal positions are worked out 'on the hoof', in response to seeing how the other party reacts to commercial proposals. Leaving aside the question of whether this approach is likely to achieve the best deal, it can be very inefficient as a process and lead to an escalation of legal costs.

Mark Anderson is the Managing Partner of Anderson Law LLP, a firm of solicitors that specializes in IP transactions. See www.andlaw.eu for further details. The firm advises companies across all industry sectors, and has recently assisted clients involved in biotech, IT, engineering (including green energy), FMCG and financial services projects. Most of the firm's clients are based in Southern England, but it also has clients in Australasia, Continental Europe and North America.

As well as advising clients, Mark runs training courses on IP licensing and other commercial law subjects, and is the principal author of several textbooks on IP subjects, including *Technology Transfer* (3rd edn, Bloomsbury, 2010). He also runs a popular blog on the subject of IP contracts at www.ipdraughts.wordpress.com. Tel: +44 1865 858 878, e-mail: mark@andlaw.eu

Acquisitions

8.3

Acquisitions represent one of the most effective routes to growth, but how can you be sure that targets will realize their potential, asks Jessica Nugent at Goodman Derrick

For a business looking to grow, the acquisition of already established complementary businesses can be an effective method. Rather than having to develop a new division or department from scratch, a business can take on an already profitable undertaking, with employees, structures and business plans in place.

There are certain steps that can and should be taken to maximize the possible success and minimize the risks of such a strategy. A company, being a separate legal entity, will have its own liabilities and obligations and these may significantly impact on the value of the company. To avoid any unforeseen pitfalls, it is essential for a buyer to undertake due diligence investigations into the target company and to plan for its development as part of the buyer's existing business.

The following matters should be considered right at the outset:

- Most importantly, find the right business. Does the target fit in with the buyer's ethos, financial structure and long-term business plan so that it will complement the existing business?
- If the sellers are staying on, do the buyer and the sellers have the same vision for the business going forward and a common view of how the target will fit into the buyer's group? It is essential to discuss this early on to avoid pursuing an acquisition that is unlikely to go ahead or, worse, that does go ahead and quickly fails owing to conflicts of opinion.
- How will the company operate going forward? Will the target continue to operate as a standalone business, or will it be merged into the buyer's existing business? If the latter, what streamlining will this require in relation to financial resources, human resources, IT support and other functions? Any potential redundancies must be considered early to ensure that the liabilities of the buyer and the target are minimized.
- If the target business is operated by a company, should the buyer acquire the shares of the company or the business itself? This decision will often be tax driven and it is worth seeking advice early on. For the purposes of this chapter, we assume that the acquisition is a share purchase and not a business purchase.

Below, we look in more detail at particular aspects of an acquisition that a buyer can focus on to ensure the best prospects for its existing business and the target company going forward.

Employees

Employees are usually a key part of any business. Therefore, if a buyer wants the target business to continue to operate successfully, it will want to ensure that the target's key employees will stay on following the acquisition. In this respect it is worth checking the employment contracts carefully to see what notice periods and restrictions on post-employment activities apply to the staff. If they are on short notice periods and there are no restrictions to prevent employees competing with the business after they leave, the target is not well protected.

Another reason for checking employment contracts is to see what liabilities the buyer will be taking on. A buyer will want to be careful about taking on a business whose employees receive higher salaries, better benefits or more holiday entitlement than your existing employees; these entitlements cannot be withdrawn without the employees' consent and it may be that the buyer ends up having to increase the packages of its existing employees, at considerable cost to its existing business, to avoid having disgruntled members of staff going forward.

Considerable liabilities can arise if workers have been treated as self-employed consultants or freelancers when they are in fact employees by law. It is an employer's responsibility to deduct income tax and national insurance contributions at source; if it has not done so and the worker has not correctly accounted for their own tax through the self-assessment system, HM Revenue & Customs can claim any unpaid amounts, together with any employer's national insurance contributions that are due, from the employer. This can be a big expense and any potential liability should be taken into consideration when valuing the target.

Another area where the target may potentially bear significant liability is if it has not undertaken sufficient checks to make sure that all its members of staff have the right to work in the UK. There are considerable financial penalties for employing a person who does not have the right to work and there is also criminal liability if such a person is knowingly employed. Therefore, as part of a buyer's due diligence investigations, it should insist on having copies of the passports of all workers so it can assess which have the right to work by virtue of being EU nationals. Visas should be provided for any worker who is not an EU national.

Contracts

Depending on the nature of the target business, much of its value may lie in the contracts it has with its clients. If so, this is another area where detailed due diligence investigations should be undertaken. Firstly, are these contracts in writing? If not, how do the sellers propose to ensure that these clients stick with the business going forward?

If there is a written contract, check it for the following provisions in particular:

- Is there a change of control clause? When the buyer acquires the target company, there will be a change of control of that company. Many contracts will contain a provision whereby a change of control gives the other party a right to terminate the contract, or may even provide that a change of control causes automatic termination of the contract. To avoid a loss of important clients post-acquisition, it is advisable to get such clients to consent to the change of control before completion of the acquisition and to agree to be bound by the contract going forward.
- What is the notice provision in such contracts? If the client is able to terminate on short notice, it may again be worth gaining comfort that the clients will be happy with the new ownership. Also, if the target is being valued on the basis of its revenue, how secure is that revenue if the notice periods are particularly short?
- Are there any onerous provisions in any contract to which the target is bound? For example, long notice periods that tie the target in or terms that require the target to expend significant amounts in order to fulfil them. How will these affect the business going forward?

Intellectual property

In some cases, the target will have valuable IP rights, be it in trade marks, databases, copyright or know-how. In these instances, it is essential to ensure that the IP is actually owned by the target. Where the IP has been created or developed by employees, do their employment contracts provide that any IP created during their employment will belong to the employer? If the IP has been developed by self-employed freelancers or contractors, has there been an adequate assignment of the rights to the target?

If the target company does not own the IP, it risks liability to the owner if that IP is exploited without the correct licence. Therefore, it would be essential to establish what rights the target does have to use the IP. The value of the IP may fall in the exclusive right to use it, in which case if a licence is in place, does it guarantee that the IP may not be used by any other person?

It is also worth checking that any registered IP is in fact correctly registered. Are trade marks and domain names registered in the name of the company, or have they been registered in the name of a director or employee of the company? Transfers into the company's name should be completed prior to completion, or an undertaking should be obtained from the sellers to procure that the transfers will take place as soon as practicable.

Going forward

Having undertaken thorough due diligence investigations into the target company, a buyer should be very familiar with the target's business, its employees, its customers

and the way it operates. The buyer can use that knowledge to establish the best way for the target to complement its existing business going forward; will it integrate the acquired business fully into the existing business, or would the acquired business be better off continuing to operate as a discrete operation? This will very much vary on a case-by-case basis, but careful planning and consideration will help ensure the best possible success.

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PART NINE
International expansion

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Expansion through exports

9.1

Look to international markets to help your business survive and thrive in the increasingly competitive global economy, says Jeff Wilson, Head of External Relations, UK Trade & Investment

One of the key ways for UK businesses to maximize their growth and ensure their long-term future is to export their goods and services to overseas markets. Even through challenging economic times, there are unparalleled opportunities for British firms around the world. UK products, services and expertise continue to be in widespread demand globally, both in traditional, established markets such as Europe and the United States, and the high-growth economies of countries such as China, India, Brazil and Russia.

Gain the export advantage

There are many compelling reasons why UK businesses should consider expanding in global markets.

UK companies that export are responsible for 60 per cent of national productivity growth and more than 70 per cent of UK business research and development. This helps to give them a technical competitive advantage, leading to more sales and opening new markets.

As well as opening access to new sources of revenue, trading internationally will allow you to spread risk across a wider range of customers, extend the market for specific products and ensure that you are aware of international competition. In some cases, this enables companies to offer much more interesting roles for their staff and recruit better people as a result.

Exporting can also be a catalyst for innovation. In many cases you will see new ideas and opportunities overseas which will spur you to develop new and modified products to meet the needs of international customers. This can help you to gain and retain a competitive advantage in the UK as well.

Academic research (Harris and Li, 2007; Hart *et al*, 2009) confirms that exporting companies:

- are more productive and innovative than non-exporters;
- are more resilient to an economic downturn;

- achieve stronger financial performance;
- have a higher profile and more credibility; and
- are more likely to stay in business.

Making it happen

If you are interested in trading internationally, you will need to think about how to research, target and grow a presence in overseas markets.

Firstly, you need to assess your export potential honestly, in terms both of the readiness of your business and of your product and service. Business Link's online tool 'Export for growth' can help you do this.

You should then carry out market research to identify and evaluate the target market. Desk research is a good starting point, but you may also wish to consider commissioning some bespoke research from an export specialist. After completing your market research, you can then draw up an export plan defining how you will enter the new market.

Once the initial homework has been done, and you have decided on the export market/s to approach, you then need to organize your sales presence there. You may be able to sell directly, but many firms prefer to appoint an agent or distributor or set up a joint venture with a local business.

Marketing is a key element of successfully selling overseas. To be effective, your marketing strategy should be tailored to each target market, appreciating the traditions, culture and legislation of the country you are trading with.

It is also important to visit the market in person. This will enable you to experience the marketplace first hand and make the contacts necessary to do business. Attending overseas events, such as trade fairs, and participating in a trade mission can be great ways to test markets, attract customers, appoint agents or distributors and make sales.

Getting you started

Exporting may initially seem quite daunting, especially if you have never done it before. However, a wide range of support services exists to help UK exporters and would-be exporters to tackle virtually all of the issues and challenges which they are likely to face, and help them become established in international markets.

Key sources of help include UK Trade & Investment (UKTI), the government department that helps UK-based companies succeed in global markets and assists overseas firms in bringing their high-quality investment to the UK. UKTI has helped many thousands of businesses achieve international success by providing tailored services with specialist support covering a wide range of industries. Its clients consistently cite the importance of UKTI support in helping them to overcome barriers to new overseas business and improve their commercial performance.

Offering a global network of 2,400 staff, UKTI's international trade advisers (ITAs) around the UK have years of business experience to draw on when advising companies, while local in-market knowledge and expertise are available from commercial officers based in British embassies and other diplomatic offices in 96 markets worldwide.

Encouraging UK companies to export to high-growth markets is a particular focus for UKTI. This is demonstrated by initiatives such as the Explore Asia campaign, which aims to give UK businesses the knowledge, inspiration and confidence to consider Asian markets as profitable and valued trading partners.

Other major UKTI initiatives include the High Value Opportunities (HVO) programme, which aims to provide UK businesses with the intensive support they need to access large-scale overseas procurement opportunities. These opportunities are worth billions of pounds, and range from major infrastructure, manufacturing and engineering, through to big supply or value-chain opportunities.

Thanks to such support, there has never been a better time for businesses to think global and scale up their international presence. Exporting provides a major opportunity for growth in the UK economy – and it could be a major opportunity for your company too.

Getting it right

Ten key steps to successful exporting:

1. *Research your market.* Does your prospective foreign customer need what you are selling at the price that will yield you a profit? What is the competition and how will they react?
2. *Implement an export strategy and review your capabilities.* Ask yourself: what would my business gain from exporting?
3. *Construct an export plan.* Define how you will enter the overseas market. Finalize human resources and marketing strategy and allocate an adequate budget to cover export start-up costs.
4. *Choose your sales presence.* Establish whether you need a direct sales operation. Or is an agent or distributor more effective? How will you manage your overseas sales presence?
5. *Promote your product.* How are you going to market and sell your product? Customize marketing to the target country.
6. *Get the Customs side right.* Contact HM Revenue & Customs and the British embassy of your destination country to clarify requirements. Make sure your reporting practices are watertight.
7. *Get paid on time.* Ensure that your cash flow will remain at a safe level. Guarantee sufficient credit for your future sales. Take out insurance cover if necessary.
8. *Choose your distribution methods.* Consider the implications of selling over long distances and across national frontiers.

9. *Transport goods effectively.* Assess and choose the most effective transport method and make sure the goods are insured by you or the importer.
10. *After-sales policy.* Regularly liaise with customers, export agents and banks. Monitor political unrest or other adverse conditions in the country of destination. Manage regular servicing and warranty claims.

Business benefits

Exporting can allow companies to:

- achieve levels of growth not possible domestically;
- increase the resilience of revenues and profits;
- spread business risk;
- achieve economies of scale not possible domestically;
- increase the commercial lifespan of products and services;
- increase the returns on investment in R&D;
- improve financial performance;
- improve productivity;
- boost their profile and recognition internationally.

UK Trade & Investment services

- *Passport to Export.* Provides new and inexperienced exporters with the training, planning advice and ongoing support they need to succeed overseas.
- *Overseas Market Information Service (OMIS).* A tailored service provided by UKTI's overseas teams to access market and industry information, identify potential contacts or assist in planning an event.
- *Export Marketing Research Scheme (EMRS).* Offers support, advice and some grant funding to eligible companies wishing to research a potential export market.
- *Export Communications Review (ECR).* Assesses the way companies communicate with overseas customers and makes practical recommendations for improvement.

- *Events and seminars.* Held across the UK and internationally. They include specific sector and market-based activities.
- *Trade missions.* Organized to help UK companies visit the market they're interested in and talk face to face with prospective business partners. UKTI also organizes missions into the UK to allow overseas delegates to meet with potential partners or investors.
- *Business opportunities.* News e-mailed directly into your inbox, highlighting hot leads in your chosen overseas market.
- *Gateway to Global Growth.* A service for more experienced exporters. It offers focused planning, advice and support to help companies to build on their previous success and develop new overseas markets.
- *High-value opportunities programme.* Proactively identifies global supply-chain opportunities, coupled with an online service giving access to several hundred sales leads around the world each month.

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You can find contact details for your local UKTI international trade adviser on www.ukti.gov.uk or telephone +44 (0)20 7215 5000.

The UKTI helpline is open from 9.00 am to 5.00 pm Monday to Friday.

Intelligence to make you international

9.2

Drawing on their experience in China and North America, Matthew Harrison and Mark Hedley of B2B International set out 10 ways in which business-to-business (b2b) market research will make your business an international company

Market research and market intelligence do not enjoy the most dynamic of reputations throughout company board rooms. Marketing departments often see surveys as little more than a raw data resource, to which they then add the main value. CEOs criticize surveys as lacking the business context necessary in order to be actionable, while sales teams often deride market research as unnecessary window dressing. In reality, however, good-quality market research is an invaluable strategic resource for any dynamic business, and particularly those companies with international aspirations. This article sets out 10 key ways in which market research can expand the horizons and operations or your organization.

1. It will tell you what your customers want

The most fundamental question to any business is 'what do our customers want?' Market research is really the *only* way in which to answer this question effectively. While most companies possess a mine of internal knowledge about their customers' needs, it is usually a mistake to assume that this represents a comprehensive view of what customers really value. Without doubt, internal knowledge from sales teams, business developers, senior management and other client-facing personnel offers critical insights into customer requirements and should always be systematically gathered as regularly as possible. However, it is also important to recognize that internal data is often seen through the prism of prevailing corporate culture, which has the habit of filtering or distorting the true picture. For example, why would someone working for a company whose ethos and even strapline espouse low prices admit that the market has changed and today's customer wants something different? Why would a client manager admit that their customers have a range of unmet needs, at risk of being branded a failure?

More formal market research tackles these challenges in a number of ways. Firstly, the use of a third-party agency to conduct the research means that research is independent and impartial, while the anonymity of the commissioning company can be maintained. This also has the effect of minimizing the likelihood of any criticism (or flattery) directed at the company from interview respondents. Secondly, the wide variety of questioning, analytical and statistical techniques at the disposal of market research agencies also helps to maintain the independence of findings. For example, while projective questions place respondents in 'virtual' business situations that help to elicit real-life responses, statistical driver analysis isolates the real factors behind purchase choice, rather than simply relying on the articulation or agenda of respondents. Finally, market research agencies are specialists at analysing data independently and have a remit to find out the full and true picture; that is, good research agencies are motivated to challenge the status quo rather than to maintain it.

For companies seeking to expand overseas, the independent approach is all the more essential. Multi-million-dollar global investments may rest on companies being faithful to the principles of the whole truth and nothing but the truth.

2. It will show you the size of the prize

The decision to enter a market, the decision to expand capacity or sales presence within an existing market, the setting of sales and growth targets, and the choice of distribution channels are all critical decisions that will often depend primarily on the overall size of the opportunity in a particular country or market.

High-quality market research agencies specialize in deriving market size from a variety of statistical sources and through commentary methods, while data triangulation offers reassurance that market size estimates are accurate. Some of the common ways in which agencies estimate market size include:

- asking a representative selection of target customers how much they spend on the product or service and aggregating up to take account of the whole market;
- aggregating the total revenues from all players in the market (for the products/service in question);
- calculating market size for other geographies or sectors and applying proxy multipliers to calculate the size of the market of interest;
- using existing secondary data, research reports and the views of independent experts to cross-verify and sense-check the market size.

In most markets, there is seldom sufficient information to rely on one market calculation method alone, and typically a combination of the above will be used. This combined approach normally results in a market size that is accurate within a 10 per cent margin of error. Again, the market size estimation is independently obtained by a company whose key motivation is to get it right.

3. It will show you exactly how to ensure competitive advantage

Many companies with international expansion objectives may be looking to enter new and unfamiliar markets for the very first time. More often than not, the competitive environment in other territories and markets can look significantly different from the company's home market, where it is likely to enjoy higher market share and the competitive advantages conferred by a strong reputation on high levels of brand awareness.

Market research can fulfil the important function of identifying which competitors are active in the target market, what the relative strengths and weaknesses of these companies are, and how effective it will be to compete with these companies in terms of product/service offering, price, channel coverage and promotional capabilities. External research agencies can gather detailed information of the competitive landscape, highlight the key competitive barriers to market entry and help companies to formulate strategies to position themselves most effectively against the competition and to leverage the areas in which they retain strongest competitive advantage.

4. It will show you that distribution is everything

Marketing and business development strategists often focus on the three most evident and definable aspects of the marketing mix – product, price and promotion. More often than not, however, too scant attention is paid to routes to market, which is surprising given the critical role of the distributor in b2b markets.

This failure to properly understand how products find their way to market is a key reason why many transnational market entry strategies fail when actually put into action, and especially in BRIC (Brazil, Russia, India and China) and other developing countries, where distributor channels are often fragmented and can appear opaque to foreign eyes. Proper channel research conducted by a qualified agency with a local presence is critical if investment in product development, promotions and pricing strategy is not to be wasted. When it comes to international expansion, nothing is as important as getting the channel right, and channel research therefore plays a crucial role in helping companies to take the right decisions on their distribution channel strategies.

5. It will either make you money or save you money

Market research companies obsess about return on investment (ROI), as they cast envious glances at the rewards gleaned by their clients as they implement the recommendations derived from research. Separating the benefits derived from

research from the benefits derived from in-house brainstorming and other sources can be very difficult, and it is clear that market research is just one of many inputs to the business decision-making process. However, it is clear that, when used effectively, market research has a fundamental role to play in helping companies to maximize revenues and long-term profitability. In particular, market research can help to:

- confirm whether the opportunity is big enough, reducing the risk of investing and saving any potential losses associated with misguided investments;
- give decision makers confidence that their assessment of the market opportunity is the correct one, ensuring the correct decision is taken;
- discover if and how the company's view of the market needs to be refined, thus maximizing the success of the decision.

6. It will prove that your customers don't care about price

Accurately determining the level at which products should be priced in new markets can be a minefield for organizations looking to expand into new and unfamiliar regions. There is a strong temptation among many companies to assume that a lower price point will be necessary to succeed in developing markets, even where the company may occupy a premium price position in its home market. Simply relying on the views of local sales staff and distributors on optimum pricing can be a recipe for disaster, as the interests of the company and local stakeholders do not necessarily correspond with one another.

Pricing a product is one of the most challenging decisions marketers have to make, and independent market research plays a vital role in helping to determine the optimum pricing level of a product. A variety of different research tools and techniques exist for understanding the trade-offs that respondents make when selecting and purchasing products, such as price sensitivity models and value maps. Research very often helps to illustrate that the growing demand for value in developing regions belies the common assumption that price is always the key driver in markets such as China and India. Very often, research may suggest that a price-cutting strategy, while intuitively making sense, is usually the road to ruin in new markets, where local competition can undercut you from a lower price base. The results of research can give companies a rational basis for increasing prices and growing profits, when the received wisdom may be that only price cuts can secure market share.

7. It will show you that marketing is as important as selling

Marketing, like market research, is sometimes derided in b2b companies. In manufacturing businesses in particular, the salesperson is king, with marketers seen

as support staff. Market research, however, repeatedly proves that strong marketing is the foundation of a strong salesforce, not least in showing that in most markets good sales figures are not about low price. When customers are spoken to independently and confidentially and their responses mythically analysed, it becomes clear that many salespeople are giving value away by charging insufficiently to some customers, at the same time as losing others by charging too much. Marketing at its core is about the profitable satisfaction of customers' needs, and sales teams routinely have an insufficient understanding of how to achieve this.

8. It will show you that cultural differences are not important

Companies with a local rather than an international focus are often fearful of the prospect of selling to customers operating in entirely unfamiliar cultural environments, frequently assuming that differences between countries are so distinct as to make entering new markets practically impossible. For example, it is very common to assume that personal networks, relationships and face-to-face selling are the only ways to succeed in developing markets such as India and China. While such assumptions have an element of truth, in reality a strategy that relies on a relationship-based sales strategy alone is likely to fail to take account of the myriad factors that inform decision making in b2b markets.

Market research can enable companies to get beneath the surface of decision makers' thought processes, and develop more sophisticated sales strategies that rely on more than just personal interaction and loyalty. In particular, market research can help to segment target customers into different target groups, according to firmographics (company demographics), needs or buying behaviours, and to help develop customer value propositions (CVPs) that most closely meet the needs of each different target audience. In other words, research can help organizations to realize that cultural factors impinge far less on buying decisions in new markets than factors such as company profile, buying habits and purchasing behaviour.

9. It will show you what is worth measuring and what is not

Companies that are expanding internationally have a thirst for measurement. How much money are we making? How long until we have wiped out our set-up costs? How does our performance in one country compare with our performance in other countries? Market research is all about measurement, and above all about the interrelationship between different data sets. Fundamentally, market research seeks to identify to what extent different variables impact upon growth and profitability. Good market research results in a series of firm actions that should be taken by the client, each of them impacting upon growth or profitability, and each of them measurable.

10. It can help you plan for the future

In today's globalized world, any company looking to achieve sustained long-term growth needs to seriously consider ways in which international expansion can contribute to its growth plans over the long term. Although many companies may have a strong hunch that entering new territories will act as a catalyst to future expansion, there is still a clear need for impartial research to reinforce this perspective. Effective research will not only examine the long-term opportunity a market presents in terms of market size, customer needs and degree of competitive rivalry, but it will also look to examine the broader market environment and long-term implications that any changes to this environment may have for a company's strategic approach.

One way of doing this is for the research agency to gain insights from knowledgeable experts and stakeholders, as well as using a variety of published and web-based information to build up a comprehensive picture of how the whole market environment is likely to develop in the future. Research can examine the PESTLE forces (political, economic, social, technological, legal and environmental) shaping a market, and make predictions on how this can affect a company in the years ahead. As well as looking at environmental factors, research can also help companies to make market, product and sales forecasts, based both on internal data and information derived from speaking with a broad cross-section of customers, suppliers, distributors, competitors and experts.

Matthew Harrison is CEO of B2B International. Currently based in the UK, Matthew previously set up and managed B2B International China in Beijing, and also set up the company's North American HQ. He has 11 years' experience of business-to-business research and intelligence on a worldwide basis. His clients include the likes of PwC, Shell, ITT, Infineon, Tyco, Reed Business Information, Informa, Tata and Wolters Kluwer. He has written numerous papers and articles for B2B International, as well as for the following publications: *American Marketing Association*, *Asia Research*, *China Business Review*, *Marketing News* (US), *MRA* (US Marketing Research Association) and *Planung & Analyse* (Germany).

Mark Hedley splits his time between B2B's offices in the UK and China. He previously spent seven years working in mainland China and is a fluent Mandarin speaker. Prior to joining B2B, Mark worked for a business consultancy in Shanghai, assisting US and European companies to enter the Chinese market. Mark has worked with a number of clients from a number of different industries, including the automotive, construction, chemicals, education, food & beverage, engineering, electronics and healthcare sectors. He has considerable experience advising companies on a range of China-related issues, including manufacturing site selection, partner selection and management, IP protection strategies, and the challenges faced in selling to Chinese companies. Mark has written extensively on the Chinese market, including two recent white papers: *Marketing & Selling to Chinese Businesses* and *Entering Chinese Business-to-Business Markets: The challenges & the opportunities*.

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The export challenge

9.3

As a growth enterprise, you will want to start to winning work away from home, but you have to be ready for the complications of making and fulfilling international sales, says Jim Sherlock

A British prime minister, Harold MacMillan, once said that 'exporting is fun', which proves he had never actually done any. There are many words beginning with 'F' that might describe exporting, but 'fun' would not be the most obvious. 'Frustrating' would certainly be in there somewhere, so would 'frightening'. But talk to experienced exporters and you will also hear words like 'fascinating' and 'fulfilling'. Yes, it's 'complicated', 'confusing', 'unpredictable', even 'infuriating', but also 'absorbing', 'exciting', and most importantly, 'rewarding'.

The fact is that exporting provides a huge diversity of functions and environments which balances the good with the bad and makes it an incredibly worthwhile experience for all those involved. However, the unfortunate fact is that many companies entering into export trade are not properly prepared and will only ever experience the bad side.

If we are to get to the rewarding parts, both in a personal as well as a commercial sense, then we have to accept that there is an enormous range of pitfalls for the unwary and that our job is to prepare ourselves and our companies so that we enter overseas markets in full knowledge of what to expect – and ready to handle it.

First – we have to accept that overseas markets will inevitably be different from our home market, and it is not just that they speak a foreign language. Good research can reveal a myriad of political, legal, economic, technological, social and cultural differences. These have to be considered when we are deciding what we are going to sell and how we will sell it.

Then, when we are successful in getting the enquiries, we are faced with the complex and detailed procedures concerned with converting them into firm orders, getting the goods or services delivered and, most importantly, getting paid.

So what sort of questions would an exporter have to answer before entering an overseas market?

- Do I have the commitment of the whole company to a long-term development of overseas markets?
- Do I have the administrative and financial resources to conduct an efficient operation?

- Do the current staff have the expertise to market our goods and services successfully overseas and collect payment?
- Can I find appropriate support from my bank, government services and freight forwarders?
- Which markets offer me the greatest potential at the minimum risk?
- What modifications will be needed to make my product/service saleable there?
- What price is the buyer prepared to pay and on what basis (ex-works or delivered)?
- Do I need an agent or a distributor and if so, how do I find one?
- How do I promote my products effectively?
- Are there any Customs barriers that I need to consider?
- How do I cover the risks of theft and damage to my goods in transit?
- How do I make sure that I get my money?

The answers are not always so obvious and will be different from one market to another. However, good research and the use of the many sources of information and advice available both in the UK and overseas will provide many answers.

Specifically, you should first contact your local Business Link – www.businesslink.gov.uk/internationaltrade and talk to an international trade adviser (ITA) who can offer help in almost every aspect of your export planning and direct you to other sources of help and information. Foremost in providing that help is the employer of the ITAs, UK Trade & Investment, which is the export trade development section of BIS (previously BERR, which was previously DTI). They have an excellent website (www.ukti.gov.uk/export.html) full of vital information and links to your local ITAs and other useful sites. It may be that as new exporters you are eligible to participate in the 'Your Passport to Export Success' programme which offers hands-on help, essential staff training and subsidized overseas visits.

Register for free on the UKTI website and gain access to a wide range of information and support. In particular, go to 'Our Services' – 'Preparing to Trade' and try the 'Are you ready to export?' online questionnaire covering all of the questions above and many more. The short time it takes you to complete the questionnaire will be time well spent when you print out the subsequent report, which is generated from your responses. It will also allow you to make direct contact with your local Business Link and an ITA who can follow up the preliminary report.

It is often the case that such a report will highlight the need for specialized training for new exporters in export marketing and the technical processes involved in distribution and payment. A number of organizations offer relevant short courses, notably the Institute of Export which offers a comprehensive Short Course Training Programme (details on www.export.org.uk).

Other websites which offer essential support are:

Market Access Database (http://madb.europa.eu/mkaccdb2/indexPubli.htm): Providing detailed and product specific information on the import requirements and barriers for all non-EU countries

HM Revenue & Customs (www.hmrc.gov.uk/): The Customs site provides a huge range of information regarding export and import procedures, mostly written in plain English.

And all for free.

There is a lot of information and help out there. Just make sure that you are not sharing the fate of the exporter who lost money because:

- Their bone china dinner services specially designed for the Italian market failed to sell at all because they lacked a pickle bowl.
- The Libyan flags in the left paws of the promotional teddy-bears were seen as an insult to the flag and were destroyed. (In most Muslim countries the left hand is for toilet purposes only!)
- The sole distributor they appointed was actually already contracted to sell a direct competitor's products – which they continued to do with great success.
- The 'before and after' photographs which had worked so well for the sale of depilatory creams in English-speaking countries did not work so well when translated into Arabic, which reads from right to left. They forgot to reverse the pictures!

And how about the loss of £155,000 worth of goods because a comma instead of a full stop on an invoice presented against a Letter of Credit meant that the bank rejected the documents. The buyer, quite legitimately, refused to pay and, because the exporter did nothing, the original buyer then picked them up at the auction in the port of destination some 10 weeks later at a quarter of the original price.

All could have been avoided with some basic research and good advice.

Finally, and with particular reference to the current UK domestic credit crunch and, perhaps more importantly, an ongoing global recession, current economic research consistently shows that companies that export to any country, in any financial climate, perform better than those that don't.

They say that companies that export:

- improve their productivity;
- achieve levels of growth not possible domestically;
- increase the resilience of their revenues and profits;
- achieve economies of scale not possible domestically;
- increase the commercial lifespan of their products and services;
- increase the returns on their investment in R&D;
- improve their financial performance.

In other words, professional exporting is just about the best way to survive the recession.

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Co-author of *International Trade* (Kogan Page, 3rd edn 2011) and author of *Principles of International Physical Distribution* (Blackwell), he is also currently the senior tutor for the online qualification, Certified International Trade Adviser (see www.citaworld.co.uk).

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Exploring new markets

9.4

Rakesh Sharma at British Airways discusses how to explore some of the world's fastest-growing markets

Whatever business you are in, you will have taken notice of the rapid growth that is sweeping through Asia, Africa and Latin America. You may well be in the process of considering expanding your product/customer base to take advantage of this.

British Airways is among those expanding their reach in these territories. Just because it is right for British Airways, it is not automatically the right thing to do for all companies. A multitude of considerations need to be taken into account before committing to overseas expansion.

Research

Although you will have researched your business idea before starting up in your home market, the same, or even more, care and attention need to be given when thinking of expanding internationally, as the stakes could be higher. Just because your product/service works in one country does not mean it's right for another.

Also, the positioning of your product or service may need to be rethought. You may be the brand leader in your home market, and your product or service may be positioned as a premium offering that you can charge a premium for, but will it be the same in international markets? How are other competitors perceived in the market? Where is the gap? What are they doing?

Social etiquette and business protocol

Consider the cultural norms and social etiquette of the countries you are thinking of expanding into. Countries in Asia and the Middle East have strict standards on what is and what is not acceptable. For instance, in India, you should only use your right hand to eat at the table; in terms of doing business, arriving late to a meeting in China is considered an insult.

Understand business protocol. Think about how you should introduce yourself or greet a person. Whom should you address first?

Language

Although most countries will speak English, it's never a bad idea to try to learn the language of the country you are planning to do business in. Even if it is just the basics, this can show respect. Think about translations – does product packaging need to be translated or will English suffice? Will you require local staff who are able to speak the language? Are there different dialects where you will operate?

Financial advice

Seek solid financial advice; can you afford to branch into a new market? What are the risks if things do not work out as planned? Could you be putting your existing business in jeopardy?

Legal

Take account of any laws restricting non-residents of the country from setting up businesses or, in some cases, non-nationals could also be encouraged to set up businesses. Ensure you understand the employment laws, as it is likely they will be very different to the ones in your home country.

Environmental regulations

As an airline, British Airways is heavily impacted by environmental laws and has become proactive in looking at ways to help the environment. For instance, in September 2011, British Airways became the first company to offer its customers the ability to support low-carbon community projects across the UK through the new One Destination Carbon Fund. What environmental regulations (if any) could impact your business/production of your product?

Systems/suppliers/logistics

Can your current IT infrastructure cope with dealing in foreign markets? For example, do your IT systems have the capacity to deal in different currencies – which ones are necessary for your expansion? How will your systems cope with different addresses? For example, countries as close as Ireland do not have postal codes. So making postal codes a mandatory field in an application will cause issues.

If your business involves a product or service being delivered straight to the customer, can you reach them? What are transport links and postal services like? If you need to visit your suppliers regularly during the start-up period to quality-check your

goods, is this a relatively simple trip, or does this take you out of the office for long periods of time and is the IT/telecoms structure sufficient for you to work on the move?

Alliances

Consider alliances when expanding. Existing companies within the market will have a certain level of knowledge already, and have established a position and contacts. It may also be a way to remove some of the red tape in entering the market and create immediate synergies. However, ventures such as this will still need to be entered into with a great deal of care.

Rakesh Sharma manages the Global SME proposition for British Airways Plc. He has several years' experience within the aviation industry in developing strategic relationships with SME organizations, focusing on aiding SMEs break into international markets. He specializes in providing global companies with bespoke travel solutions for their international business requirements: e-mail: Rakesh.1.Sharma@ba.com

Reaching markets and saving money on your business travel

Over the last couple of years, British Airways has been building even more alliances with other airlines. The Joint Transatlantic Business with American Airlines and Iberia will give customers access to a global network of over 400 destinations, more convenient schedules and better connections.

The merger with Iberia in January 2011 means a further expanded network, opening up more destinations in South America to British Airways' customers. In recognizing the opportunities in Asia and Latin America, British Airways has recently increased the frequency of flights to Rio de Janeiro from three a week to a daily service and created a non-stop service to Buenos Aires.

Managing business travel

Whether expanding in terms of location, customer or supplier base, British Airways' vast network creates opportunities for businesses to travel to where they need to do business. With the On Business Programme, British Airways can also help businesses save money.

On Business

British Airways' loyalty programme for small to medium-sized companies can provide companies with savings on their business travel. For example, in the 12 months prior to

31 March 2012, On Business members saved £14.5 million through British Airways' loyalty programme.

With On Business, companies earn On Business Points on flights with British Airways, but now also on selected flights with British Airways' partners American Airlines, Iberia, Qantas and flights operated by Comair, which in turn can be redeemed for flights and upgrades on British Airways or for stays at Marriot Hotels around the world.

For example:

- Two qualifying return flights between London and Johannesburg in World Traveller Plus can be redeemed for an e-certificate for a one-night stay in a Marriott hotel.
- Eleven qualifying return flights on British Airways in Club World between London and Delhi can be redeemed for a reward flight in Club World (taxes, fees and charges payable).

British Airways' vast network provides plenty of opportunities to earn On Business Points to save on your business travel. Just make sure that when you or your colleagues travel, your On Business number is always inserted into the booking.

The On Business programme is not just available to companies in the UK but available to join in over 50 countries. Following the growth in Asia and Africa and the need for business travel, the On Business programme went live in Nigeria in 2010, already being present in South Africa, and in 2011 launched in China, Japan, Thailand and Singapore among other existing countries in Asia.

To find out more and enrol, go to ba.com/onbusiness.

The Executive Club

As well as saving money on your business travel spend with On Business, British Airways' award-winning Executive Club programme can also benefit you and your travellers personally.

Members of the Executive Club can earn Avios on flights with British Airways and its partner airlines as well as collecting them with shopping partners. These can be redeemed for flights, upgrades or in some countries hotel stays and car rental.

In addition to collecting Avios, when you fly you'll also earn Tier Points, which can help you move through the tiers of Blue, Bronze, Silver and Gold. Your benefits increase as you move through these; for instance, if you reach Silver tier status, you can escape to British Airways' business lounges, offering a place to relax or work while you are at the airport.

To find out more, just go to ba.com/theclub.

For more information about British Airways or its On Business programme please visit ba.com.

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PART TEN
Growth capital

Funding your business: where are we?

10.1

The fourth year of the downturn that started in autumn 2008 sees the financial markets facing the same global challenges that dominated 2011. At the sharp end, obtaining finance for growing businesses – never easy – is still not straightforward, but there are still available sources for those seeking to secure funding and actions to take to ensure survival, says Paul Beber at HW Fisher & Company

Both the government and the banks have committed themselves to ease the funding difficulties for SME businesses caused by the financial crisis in the banking industry. In practice, however, this is often no more than 'lip-service', businesses fighting for a share of the limited funds available. To add to the challenge, the cost of these funds has risen significantly.

With less credit available and lenders becoming more selective about whom they lend to, businesses have to start looking beyond the traditional routes to obtain funding. There is still money available, although there may be less of it overall, but with interest rates at historic lows, cash in the bank is earning pitiful returns. So just what are the options for established businesses that are finding it difficult to obtain bank loans and overdrafts?

Considering other types of finance

With banks still reluctant to lend to individuals and businesses, or demanding additional security which entrepreneurs either do not have or are reluctant to give, there are other options worth consideration and, fortunately, there are resources available to help businesses accomplish their goals and continue to grow, beyond the 'friends and family' financing. These include:

- Asset-based lending. Invoice finance is the foundation of asset-based lending (ABL), whereby money is advanced against a company's assets. In the case of factoring, the most popular form of asset-based finance, the financier can

collect debts on behalf of a business. Apart from invoices, other suitable assets can include stock, machinery and, of course, property.

- Peer-to-peer lending has recently emerged in the UK as a successful alternative, whereby private investors often lend directly, offering various types of loans from business to personal, without the requirement for a financial intermediary.
- Government grants have notoriously difficult application processes and can be complex to navigate, but there are genuine opportunities available for those who persevere.
- Tax incentives – Enterprise Investment Scheme (EIS) and Seed EIS for small early-stage companies – are designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies. Seed EIS in particular, due to commence in April 2012, can be extremely tax beneficial and reduce investors' risk at the cost of HMRC. With cash returns so low, this could be extremely attractive.
- Businesses of any size can use joint ventures to strengthen long-term relationships or to collaborate on short-term projects, while sharing the risk and costs with a like-minded partner. Even start-up businesses can sometimes get such backing to help get themselves established.
- Business angels can often provide substantial investment in return for equity in the business, offering a direct involvement with that investment for business owners. There are a number of business angel clubs that seek to serve this market.
- 'Private equity' – the more modern name for 'venture capital' – typically comes from institutional investors and high net worth individuals, and is pooled together by dedicated investment firms. Private equity in the UK is primarily aimed at already profitable companies with high potential growth. There is a wide array of types and styles of private equity, including leveraged buyouts, growth capital, distressed investments and mezzanine capital.
- Venture capital trusts (VCTs) aim to bridge the equity gap between banks, government grants and business angels on one side, and institutional venture capital on the other. They are often more geared towards the early-stage company than private equity.
- The lack of available bank finance has led some companies to consider getting a public quotation. Companies typically seek a public quotation because it offers profile, some liquidity for its shares, an audience receptive to growth and an environment where management can devote as much energy as possible to doing what their shareholders want them to do – run the business. Available markets include PLUS, AIM and even potentially the London Stock Exchange. Although new companies joining the public markets has been at a low point now for the past three years, this could well change if sentiment starts to turn during 2012.

The going is tough – what do you do?

Although by this stage in the recession those that have survived may think they can start to breathe a sigh of relief, this is actually the time when even more care is required. It is a sad historic fact that more businesses go to the wall when the economic cycle starts to improve than when it is on the way down or bumping along the bottom. Lack of working capital – eroded through the recession – is primarily the problem and a sudden pick-up in business can create insuperable strains.

Delay is seldom a good idea in any business, and never when a company is in difficulty. Studies have repeatedly shown that many failed businesses could have survived if only remedial action had been taken in time. When the going gets tough, it may be time to call in the specialists. Working with ailing businesses, corporate advisory specialists aim to rescue a company either by helping to raise required finance or, if necessary, helping to reconstruct the business. They work with the directors, shareholders, lenders and other stakeholders to find the optimum solution for all involved, with an emphasis on recovery.

If some form of insolvency is unavoidable, this may not need to be the end of the line. Insolvency is generally a last resort, and whether it be a complex corporate reconstruction and recovery situation, receivership, administration, company voluntary arrangement, liquidation or personal bankruptcy, early intervention is key to successful outcomes for all involved.

What next for growing businesses

The current economic climate has led to many businesses focusing on consolidation and cost efficiency to survive. One positive outcome of this is that most businesses at this stage in the cycle have developed the drive to push their businesses forward. But this does not mean that you can take a rest – far from it. The challenges are not going to go away quickly and the need for businesses to continuously re-evaluate their position and goals, and revisit their business plans, remains as important as ever.

When preparing your plan, make sure that you carefully evaluate all needs and assess your financing needs properly. If you need additional funding, start seeking it earlier rather than later.

Improving your chances of securing the finance you need

Securing funding is proving more difficult than ever before but there are ways to improve your chances of securing finance and managing cash flow while positioning your business for the future.

Top tips for attracting and securing funding

- *Know your business.* Consider what your business's product or service is, how relevant it is in the current economic climate, and how sustainable it is in challenging times. Ensure that you have a strong business case in support of the strategy and longevity of your business before seeking funds. Keep your business plan up to date.
- *Closely manage your relationships with key clients.* Know your competitors.
- *Understand your finances.* Instigate robust forecasting and financial management. Know your debt levels, understand what type of debt you have, when those funds are going to roll over, and when and if loans will be renewable.
- *Know how much funding you need.* Take a long-term view, identify your end goal, and know how much funding you need.
- *Prepare your business for due diligence.* Usually carried out when an investment or acquisition is going to be made, the process of checking the facts of a business before seeking funds can save a lot of time and energy when negotiating an investment.
- *Seek advice.* Your relationship with your financiers and other professional advisers should be nurtured at all times, but even more so when times get tough. Ensuring that they know and understand your business as well as you do can help them determine what sort of funding is required – as well as when it is required – and seek out the best options for your business. Your advisers can prepare strategic reviews, examine the validity of forecasts and business plans, and carry out pre-lending reviews for banks and pre-investment reviews.

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For more information, visit www.hwfisher.co.uk

Growth capital options for expanding SMEs

10.2

In times of economic strain, many small businesses are trading cautiously within limited budgets. But others continue to grow and require external funding to make it happen. Darren Hart, head of Santander's new Growth Capital team, explores the lending options available to SMEs needing to move to the next level

Businesses that are growing steadily or simply marking time usually rely on existing finance facilities to cover their day-to-day working capital issues. But what about rapidly expanding businesses? An entrepreneur who sees an opportunity to move their business to the next level will need additional finance in the form of 'growth capital'.

Growth capital is used in many ways. It could be that an entrepreneur plans to bolster market share through the acquisition of one or more competitors. Or perhaps the funding is linked to a move into new markets, product diversification, or a need to build production capacity following a string of contract wins.

Risk and reward

The common factor in these scenarios is that the business has to spend in order to deliver on its growth strategy. This could mean an investment in staff, production facilities, R&D or even marketing, and while this money must be spent upfront, there can be no guarantee of a return.

And it's why raising growth capital can be tricky, especially for SMEs. Typically, a company in the market for growth finance will have moved well beyond the start-up phase and will be trading profitably with an established customer base. On paper, a plan to diversify into a new market or product is also an opportunity to grow revenues materially. In practice, there are no guarantees. Indeed, the growth strategy may fail to deliver and may also divert management attention from the original – and successful – business model.

That element of risk means that businesses may have to look beyond their current financiers to growth capital providers who feel comfortable with the uncertainty. There are a number of options, so it's important to choose a model that matches the needs and vision of the business.

Traditional lending – term loans

A term loan (often called senior debt) from a bank is the cheapest form of available finance, often because it will be secured on the business's assets. Businesses seeking growth capital should certainly talk to their existing lender or to other high-street institutions as a starting point.

However, this option may not be available for growth projects, especially in the current climate. Banks make a profit by charging interest and their main concern is the customer's ability to make good on the agreed repayment terms. If a company borrows to fund growth, the bank takes on a certain amount of risk but its return would be identical regardless of whether or not the client achieves its growth target. In other words, the lender doesn't share in the value created by the growth and so will focus more on the risks when assessing an application for funding.

It's also worth remembering that loan repayments will have an impact on cash flow, month by month, so if large sums are involved, senior debt may not be the most appropriate growth capital source.

Asset-backed lending (ABL) facilities are an alternative source of bank finance. They allow businesses to borrow against the value of plant and machinery and other assets. ABL can enable businesses to raise larger sums than through a standard term loan. Of course, this is only useful if the assets owned by a business have a significant value.

Private lending – equity investors

To many people, growth capital means private equity investment by business angels (wealthy individuals working alone or in networks), venture capitalists (VC) or, at the larger end of the market, private equity (PE) funds.

All of these equity investors buy a stake in the business that will be sold (at a profit) at a later date. The advantage for the entrepreneur is that – unlike, say, a term loan from a bank – there is no requirement to pay back the cash during the period of the investment. If the business thrives, the investor sells the shares and makes a handsome profit; typically the investor will look to double their money over three years. If the business fails, the investor takes a hit. Accordingly, PE investors are positioned at the higher end of the risk/return spectrum. And for the business, PE is at least cash flow friendly.

The active participation of an equity investor can also have a transformational effect on the business. An angel or VC can't run your business for you, but they will often take a seat on the board, provide advice, introduce you to useful contacts and help you find experienced managers.

Growth criteria

Angels, VCs and PE funds want companies with the potential to deliver significant returns. Given the perceived higher risk of investing in smaller businesses, angels will be seeking an even higher return than PE houses. Businesses that can't manage such growth will struggle to find equity investment.

Equally, by virtue of their size, SMEs also face the so-called funding gap. Angels typically invest up to £1 million; VC and PE funds (investing on behalf of larger institutions and therefore seeking a larger quantum profit) tend to invest £10 million plus in each transaction. Finding growth capital finance somewhere between the two can prove difficult.

Also, PE is expensive. Investors will want a meaningful stake in the company in return for their money. This not only dilutes ownership, but should be factored in as a cost as well. The industry benchmark puts the targeted return for PE investors at around 30 per cent per annum.

Mezzanine lending – the halfway house

Mezzanine finance is often described as a halfway house between PE and traditional bank finance. In common with banks, mezzanine financiers lend money and make a return by charging interest on the loan. They will be more generous in how much they lend but will charge a higher rate than on conventional loans, in order to reflect the risk.

Also, most mezzanine providers have warrants over a small number of shares in the company. So, if the company grows, they do get a modest gain from that value creation.

Why consider mezzanine finance? Well, like angel and PE investment, it can be cash flow friendly. Typically, all of the capital repayment is deferred until the loan matures. This means that a growing company won't be burdened with large monthly repayments and will only have to pay interest – typically quarterly.

Equally important, the equity stake warranted to the mezzanine provider will be much smaller than that required by an angel or PE house. In other words, mezzanine funding doesn't dilute the owner's shareholding very much at all.

Mezzanine finance is also a halfway house in terms of cost. It's a more expensive option than senior debt funding, but much less costly than PE investment. The percentage cost of capital is typically in the teens. However, there is an issue with accessibility. Very few providers work at the SME end of the market, lending less than £10 million, so supply is limited.

Mind the gap

The limited availability of growth capital to SMEs in the £0.5 to £10 million turnover bracket poses problems not just for individual businesses, but for the economy as a whole. Rapidly growing companies create jobs and wealth. Unless they can find funding to facilitate their expansion plans, Britain's economic recovery will almost

certainly be impaired. This is why measures to plug the funding gap have become a political priority. Witness the launch of the Regional Growth Fund, a government initiative aimed at funnelling cash to SMEs that would not otherwise be able to secure commercial finance.

The Breakthrough Growth Capital initiative

One initiative that will help fast-growing SMEs is Santander's recently launched Breakthrough Growth Capital programme.

Aimed at established, profitable and rapidly growing SMEs, the fund will provide up to £200 million in growth capital to around 40 companies per year over the next four to five years. The money will be made available through a bespoke variation on the mezzanine finance theme.

In common with conventional mezzanine finance, the Breakthrough investment's repayment structure minimizes the drain on cash flow during the crucial period when the business is putting its growth strategy into operation. Half of the 10 per cent interest margin plus London Interbank Offered Rate (LIBOR) is paid quarterly through the term of the loan. The remainder accrues up to the point at which the debt matures when it is paid with the original capital.

Crucially though, the fund differs from conventional mezzanine finance in that there is no equity component and thus no dilution of ownership. In other words, the bank receives its return solely through an interest charge.

Funding will be limited to businesses already growing at an average of around 20 per cent per year while also making a profit. Qualifying companies will be identified as Growth Champions and will benefit from a wider Breakthrough programme that provides support and advice to the companies selected, such as overseas trade missions and access to some of the best fast-growth and iconic businesses in the UK to learn from their experiences first hand.

Make the right choice

Businesses in search of growth capital must consider the pros and cons of all the options. PE investors bring the kind of expertise that can supercharge a company, but the cost of capital is high and there is a high dilution of ownership. Mezzanine finance is cheaper, but involves some dilution. Traditional bank lending is the cheapest option of all, but is likely to be structured in line with how your business looks today, without factoring in the growth, and large, regular repayments can be a drain on cash flow. Santander's commitment to growth capital through its Breakthrough programme is a very attractive option in terms of cost, retention of ownership and support, though it is limited to established companies with an existing track record of profitability and that meet its growth criteria.

Common to all avenues, it is crucial to recognize that, as businesses stand on the verge of transformational growth, they have to ensure that they have adequate

finance functions established which can take responsibility for key performance indicators (KPIs), accounts, growth projections, business plans and overall sound management practices.

With that in place, the good news is that there is more than one option to support growth. The key is to discuss the pros and cons with your advisers and your bank and then choose what is right for your business.

For more information on the different growth capital options available, contact Darren Hart on 07808 397401 or visit www.santanderbreakthrough.co.uk.

Peer-to-peer lending

10.3

How do you solve a problem like bank lending, asks James Meekings at Funding Circle

The engine room of the economy

Since the start of the 21st century, the UK has enjoyed a boom in our small business sector. In a little over 10 years, the number of small businesses has grown an incredible 90 per cent.[1] The Federation of Small Businesses now estimates that small businesses account for 99 per cent of all enterprise in the UK and 48.8 per cent of private sector turnover.[2]

However, despite this march of the makers, the economic crisis has been brutal in its treatment of small business owners. The story of banks failing to lend to small businesses, and the stifling impact this is having on the economic recovery, has become one of the most recurring news topics of the past two and a half years.

Since the start of 2009, small business owners have seen a number of initiatives introduced, all with the aim of shocking the industry back to health. From the Business Finance Taskforce through to Project Merlin (and many others along the way), none has yet proved overly successful.

The next idea up the sleeve of government is the National Loans Guarantee Scheme. However, the major banks have already admitted that this may not result in a net increase in lending to small businesses. In a bid to help ease the flow of credit to small businesses, the government has also allocated up to £100 million to lend through non-traditional channels. This chapter will explore how these alternative solutions can provide significant support for small businesses looking to access finance.

Bank loans: the start and the end of finance?

The traditional routes to finance have always started and ended with the high-street banks. In good times this worked well. However, as the global economic crisis has bitten, the appetite for risk-based lending among small businesses has evaporated.

The recent figures from the Bank of England are a clear indication of this: according to their results, total net lending across the five main UK banks fell in every quarter of

2011.[3] Even when banks have chosen to lend, credit is often offered months after application at inflated prices or unattractive terms, immediately deterring many small businesses.

A lack of demand for banks, not finance

The banks blame these problems on a weak appetite among small businesses. However, in reality the figures paint a very different picture: 35 per cent of small and medium-sized businesses sought finance in 2007, with this figure rising to 42 per cent in 2010. In 2007, successful loan applications to banks were around 90 per cent. This fell to 65 per cent in 2010.[4]

Here exists the fallacy: despite the exhortations made by the banks, it is not a lack of demand for finance; it is a lack of demand for bank finance.

An absence of competition

A significant part of the reason why this myth exists is because there is a lack of alternatives for small businesses when they seek finance. Banks have become so ingrained in our culture that, until recently, if a bank told a small business owner they could not, or would not, lend to them, the owner would assume it was the end of their search. No alternative routes to consider. No opportunity to grow. And they'd be right.

The top five UK banks make up 90 per cent of the lending market. It is devoid of competition and now exists in a state of deadlock.

A new approach to finance

Taking all this into account, it is tempting to look at the picture with a despondent and gloomy view. After all, if businesses cannot obtain finance from traditional routes, where else can they go – and how will the economy start to prosper?

The pain of the economic crisis has led to the birth of new ideas, which aren't reliant on the behemoths of the high street, and offer, for the first time, genuine choice for business owners.

There are new banks starting to enter the market offering fresh competition, and a variety of other options that deserve greater attention. Schemes such as the Community Development Finance Institutions, well established in the United States, already provide credit to underserved markets and are growing in popularity. Business angels are also a popular source for early-stage businesses – both for the financial backing they bring and for the advice and mentoring they can provide. At the same time, the government has promised to support the emergence of innovative new players that are challenging the status quo.

The largest and perhaps most exciting platform to emerge in this industry is peer-to-peer lending. In a little under two years, it has rapidly grown in popularity and has the potential to permanently redraw the landlines of the lending industry.

Peer-to-peer lending originated in the UK about seven years ago, connecting people looking to invest their money with borrowers looking for access to fast and convenient finance. This type of finance originally enabled people to lend money to each other, but this process has evolved, with groups of people now able to lend small amounts directly to creditworthy businesses.

The concept is straightforward: groups of ordinary people (sometimes up to 300–400) lend small amounts of money to lots of different businesses. From a business's point of view each loan is comprised of small amounts of borrowing from many different people who compete to lend to a business, enabling it to borrow at a highly competitive rate.

The advantages to businesses of using a peer-to-peer lending platform are:

- quick and convenient finance in a matter of days;
- fixed-rate monthly repayments;
- no application fees or early repayment charges.

At Funding Circle, we work by enabling individual investors to lend directly to small businesses. Businesses complete an initial online application form which takes approximately 30 minutes. Funding Circle's credit assessment team then review every application. Businesses must be a limited company, have at least two years' worth of accounts posted with Companies House and a strong credit rating score to be accepted on to the marketplace. Loan values range from £5,000 to £250,000, with the length of loans either one, three or five years.

With no bank in the middle, both investors and borrowers achieve a better deal. On average, investors earn 8.3 per gross yield on their investment.

The industry is growing at a considerable rate too. Since Funding Circle launched, we've helped individuals lend more than £30 million to 800 small businesses in the UK, and at present we're lending more than £1 million per week.

And we're not alone. Others, such as Seedrs and Crowdcube, are also using the crowd funding mechanism for equity finance. At the same time, the government announced in its Budget that peer-to-peer lending will be looked at as part of the £100 million Business Finance Partnership scheme, which aims to accelerate credit to small businesses via non-traditional channels.

For the first time in generations, business owners now have real choice about how to achieve finance. When one small business owner approached Funding Circle he'd met with three different banks, none of whom were prepared to lend despite the business having signed contracts from customers. In the end, their only recommendation was that he remortgaged his house.

Instead, he chose to approach Funding Circle; he received his money in two weeks and has since been able to grow his business and take on new members of staff. This simply would not have been possible via the traditional methods.

Bank finance may be the most common route to finance for small businesses, but it is no longer the only option. And perhaps it's not even the best.

Time to think differently

The biggest challenge to us and other new, disruptive players is education and awareness. It's natural that many will feel comfortable sticking with the tried and tested method.

However, the time of hegemonic banking is passing, and businesses should feel empowered to be able to have a different type of relationship with their bank: one that isn't based on exclusivity. It is pleasing that according to a recent survey by Huddlebuy, the group buying website, 65 per cent of small business owners said that they will seek alternative funding measures for their business in 2012. Indeed, we have seen many examples of businesses that continue to have a positive relationship with their bank, but as a result of requiring finance quickly decided to use a different route to obtain their money.

Competition in the market can only be a good thing, and if the banks cannot provide the products or level of services small businesses demand then it is only natural that owners will look at other methods. This is what occurs in many other sectors in the business world, and it is finally coming to financial services.

With the right government support, there is a good opportunity that the future for small businesses can be positive, and owners can get on with what they do best: serving customers and growing their business.

Notes

1. Experian: *SME Lending: A blueprint for growth*
2. http://www.fsb.org.uk/stats
3. http://www.bbc.co.uk/news/business-17009985
4. http://www.ons.gov.uk/ons/rel/fi/access-to-finance/2007-and-2010/stb-access-to-finance.html

James Meekings is co-founder at Funding Circle, the UK's largest online marketplace, where people directly lend to small businesses. Further details: www.fundingcircle.com

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