TangibleFuture™

The SME perspective: Small / Medium Sized Entrepreneuring

by Ian Birkby

Building a start up through to a trade sale: a few thoughts before you leap

In the early eighties I was in my twenties and I had around five supposedly great business ideas a week. Typically, these ranged from systems for selling restaurant promotions, pyramid selling of water filters, through to yacht chartering around Turkish Islands.

One of the five would have me particularly fired up and I'd be really annoyed that my then partner, Kirsten, who 20 years later is my wife, didn't share my enthusiasm and my burning belief that we were literally weeks away from being solely responsible for a global revolution in the restaurant promotion business, water filter business etc. etc.

Without fail, a weekend of reflection and a few kind, but piercingly cutting comments combined with my own doubts led to the shelving of another great but ultimately flawed scheme. But the ideas never went away. Perhaps that's a great test of your own suitability to become an entrepreneur. *Maybe if you're not cut out to be an entrepreneur you shouldn't try and become one!!!*

Ask yourself if you are the type of character that walks into a business, retail outlet, or even school and tries to figure out why they do well, how they could do better, what technology is around the corner that's going to have a massive impact on their operation, or what widget they are missing that would revolutionize how they perform on a daily basis?

As many business schools will tell you, one can be taught business skills, but when it comes to "entrepreneuring", it's a big advantage if you're a square peg trying to fit into a square hole.

Although I'd graduated with a metallurgy degree, my first job was selling semiconductors. I thought it was a great opportunity, as the company I'd joined was then selling semiconductors to Sir Clive Sinclair for his massively successful Spectrum Computers and his latest invention, the single person transport device: the Sinclair C5 (http://www.sinclairc5.com/).

The C5 was an unmitigated disaster which taught me my first blindingly obvious entrepreneurial lesson: *find out if someone outside of your immediate family will buy your idea or product.*

It's an old cliché, but *if you think research is expensive try ignorance.*

Despite being at the centre of white heat of the Personal Computer revolution in 1985, deep down, I didn't like the fact that I knew a lot less about semiconductors than steel. This disenchantment led to what ultimately became my first big entrepreneurial opportunity.

I knew a little about Advanced Ceramics, but my main thought when I saw the job ad for a Leeds University Technology Transfer scheme was that it was a market that I wholeheartedly believed had great global growth potential.

Skip forwards seven years and, after a bucketload of blood sweat and tears, I was presented with the opportunity to organize a management buyout to take over the fledgling advanced ceramics business I'd set up on behalf of a traditional ceramics producer.

In line with Muhammad Ali's answer to the question, "what would you be if you weren't the world champion", answer, "I don't know but if I was a road sweeper, I'd be the world's best road sweeper", I'd thrown myself 150% into the establishment of a small 5 person pilot plant to produce zirconia ceramics for wear and corrosion resistant industrial applications. I believed wholeheartedly in the product and the market, and I desperately wanted to be responsible for creating the world's greatest zirconia ceramics producer.

With the benefit of hindsight it was a huge challenge that started with nothing more than a desk, a folder entitled Project Brief, and a large amount of under-funding — but that's sometimes the benefit of youth and inexperience!

Perhaps it's interesting at this point for any potential entrepreneur to *consider whether you're an "all or nothing" mildly obsessional character — I'd say it helps if you are.* I was obsessional about the business even when I was only an employee. Enthusiasm is always positively contagious and usually leads to positive results. I've never understood why people bitch and whine about how much they hate their job for years on end — GET OUT and MAKE IT HAPPEN or SHADUP!

Most great and many failed entrepreneurs are at least mildly obsessional about what they do, most failed entrepreneurs are not — preferring instead to get gone when the going gets tough — which it will, and does at all the worst possible moments.

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Late 1991 and I found myself raising money for an MBO of a 7 person business with annual revenues of $500k, operating at break even (just) with a major product that most people thought was a glorified form of pottery. Even now it doesn't sound like a great investment opportunity — but we had a big tick in our book, we had customers who were buying increasing amounts of product.

The confirmed revenue milestone is always a good stage at which to invest in any company, so I wrote the business plan, raised everything I had on my credit card and offered to contribute $10k but I wanted 51% of the equity…………………yeah right.

There then followed a period of having my nose flattened by the slamming doors of over 10 venture capitalists — they just didn't get it, I thought. Unfortunately, stealing a phrase from the VC community, VC*'s always get it, that's the point. Just accept it and move on.*

But I did get one who got it: they sent the 10 page term sheet, I poured over this document and seriously questioned if giving them the right to any house I'd own in the next hundred years represented a good deal or not. In the end I decided it probably didn't, but I'd got a big name financial institution to this stage and that meant others should be interested — and they were.

In the final outcome the deal was done with a group of 7 business angels and by a combination of ordinary shares, series A ordinary shares and a lot of persuasion I succeeded in raising around $500k and retaining a significant slice of the action.

Jan. 22nd 1992 and I was totally euphoric, I was actually the major shareholder in a tiny company with great prospects. The euphoria lasted 10 minutes as you're then faced with the decision as to what to do next.

Skip forwards another 5 years, we've grown to a revenue of $2.5M, and we're making profits of $630k – great growth, profitability and potential and someone wanted to buy us for over $5M!

We sold. The business angels all made more than 10x their initial investment and the acquiring company made what has proven to be a successful purchase at a reasonable price.

In the words of Michael Gerber, "I knew at the start what the business would look like when it was finished" and I also knew that I'd made a great return on my initial investment — I didn't heed those voices telling me "it's a great business it can only get bigger". I wasn't greedy. In my view, it's always a good idea to leave something on the table for the purchaser.

For me the real entrepreneuring was in those 5 years. Ideas are easy, concepts are easy, executing the idea day in and day out is the hard part.

What were the key lessons I learned during that time? I've set them out below. Some you'll think are typical business clichés. They are, but I can confirm they worked for me as the entrepreneur who was running a 40 person manufacturing business.

1) *Recruit enthusiastic motivated team oriented people* and give them as much responsibility and trust as possible.

2) *Treat your team as you'd expect to be treated.* We were a manufacturing business where "punching the clock" was an accepted practice. We dispensed with it on day one as we thought it was de-humanising. We replaced it with a trust system with very clear implications for anyone who broke that trust — only one ever did.

3) *Never introduce an employee as "Joe works for me"*, it's not too hard to say "Joe works with me".

4) *Have fun in the workplace.* Why would anyone want to spend 40 hours a week in a workplace where they didn't have a laugh? Within this I'd also include managers and directors. I never had a problem with being on the end of a shopfloor gag: I actively encourage it.

5) *Pay people as much as you can afford*, not as little as you can get away with.

6) *Be open, honest and transparent* with regards to the business performance. Brief the whole company at least once a month on revenue, profitability and prospects. Share the good and the bad.

7) *Have a bonus or profit share scheme* in place that is visible (pays out within 3 months) and chunky — our scheme quite often paid a double wage in the first month of the quarter after the previous quarterly results.

8) *Give your team a future.* We implemented a UK personnel development scheme called "Investors in People" http://www.investorsinpeople.co.uk/IIP/Web/default.htm. For a small company we worked hard at ensuring we had big company policies with regards to training and developing our people.

9) *Implement a continuous improvement scheme.* Make it an integral part of the company culture. It's a truism of Kaizen (http://en.wikipedia.org/wiki/Kaizen) that lots of small improvements make a big difference. When the investigating accountants came in to perform the due diligence on us prior to the ultimate sale they couldn't understand how we'd dramatically increased our gross margins over the 5 year period. I tried to explain that everyone in the business had a real incentive

to do something a little better every day and the cumulative effect dropped into the financial results.

10) *Don't sweep anything under the carpet.* If you're good enough you don't have to cheat. Also, don't forget that when you come to sell, assuming it's a trade sale and not an IPO you will be subject to extensive due diligence and you'll probably be required to provide legal warranties on all aspects of your business. You'll sleep a lot better, providing such warranties with a clear conscience!

11) *Keep a big Due Diligence folder for all your main contracts.* If you're looking to sell your business in a trade sale, you'll need to be able to provide all this information to the investigating accountants and lawyers. Presenting your business in a nice neat and tidy box makes the purchaser feel good. Presenting them with a big tin full of paper doesn't create the right psychological message.

12) *Be focused but flexible.* Nothing ever works out as you expect. Markets change, customers go broke so you need to be flexible. But beware of radical strategy changes: they are usually disruptive and dangerous.

13) *Never be afraid to rip up the policy.* If you introduce a scheme or initiative that isn't working don't be afraid to rip it up. There's nothing worse than a boss who tries to railroad the company onto his policy tracks. Discuss it, implement it, monitor it, run with it if it works or kill it if it doesn't. I came up with a great company database for customer relationship management, no one wanted to use it, but they were polite about it, pretending to see the good points – you know when you're in that situation, just stick your hand up and publicly say, "sorry, I got it wrong, how do you think we should be doing this"?

14) *Stay focused on the Cash.* If you've not raised a *squillion* a healthy bank balance gives you security and more importantly flexibility.

15) *When you come to sell* make sure you get good advice, financial and legal. Many small business owners resent paying big city lawyers and financiers, but with hindsight I should have taken much more advice much earlier and paid less tax!

16) *After you've sold, move to Sydney Australia.* It's a great city and thanks to the web it's not that far away anymore.

So the last one worked out, I'm now onto the next one, rolling over the gains into a dot.com with an advertising model. Now that was a great idea to set up a company like that 2 months before the Nasdaq peak!

But we're here, alive and thriving, we've just doubled turnover, we're cash flow positive and we have lots of customers who like us — plus we have a revolutionary scientific publishing model that just might change the world!! Onwards and upwards!

Good luck!

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About the author

Ian Birkby is currently the founder and CEO of AZoNetwork, Sydney, Australia: an online technical and scientific publishing business, currently focused on Materials, Nanotechnology, Building and Medical news (http://www.azonetwork.com/).

With more than 20 years experience in technology sales, marketing and general management, Ian was formerly the Managing Director of Dynamic-Ceramic Limited (http://www.dynacer.com/), Crewe, England, being responsible for leading a Management Buyout in Jan. 1993, and the subsequent sale of the business to Bomanton International (Nottingham, UK) in November 1997. Ian served as a main board member of Bomanton International.

During Ian's tenure at Dynamic-Ceramic Limited the company was a regional innovation award winner (1995), business of the year (1998) and recipient of the UK Government Department of Trade and Industry SMART award (1999).

Ian holds a first class honors degree in Engineering Metallurgy and a Ph.D. in the fabrication and wear behavior of Y-TZP Zirconia ceramics. Ian also served as a former editor of "Ceramic Technology International", was a founder member of the Institute of Nanotechnology, a former chairman of Medilink Northwest (a medical devices consortium) and was a former vice-chair of the Institute of Materials Materials Strategy Commission.

Ian also combined his early academic and business interests with 9 years as a professional Rugby League player.

