

Ariannu Twf Financing Growth

London
Business
School

John Bates

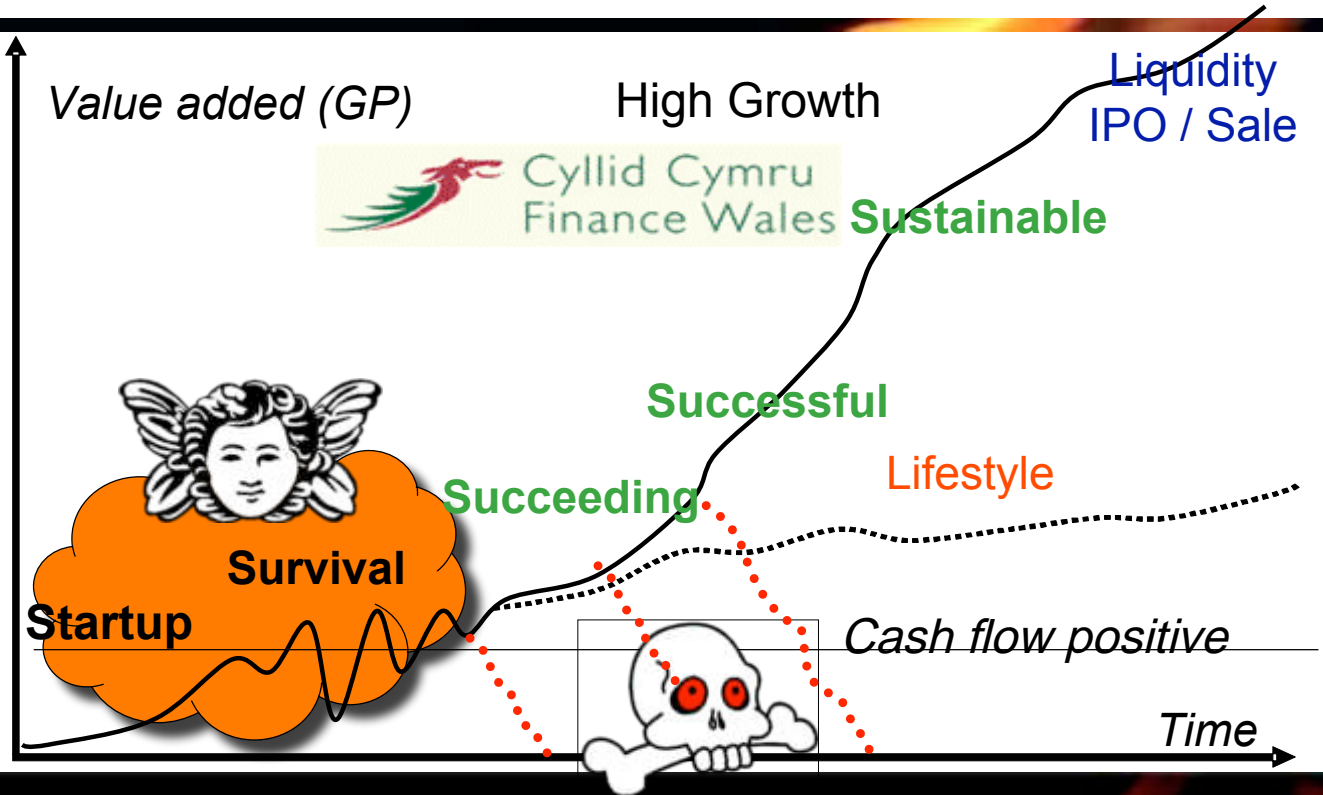
Professor of Entrepreneurship,
London School of Business

“Challenges of
Growth”

ariannutwf.co.uk
financinggrowth.co.uk

 Cyffwrdd Cymru
Finance Wales

Growth & the company "life cycle"



Cyllid Cymru
Finance Wales

Sustainable

Successful

Succeeding

Lifestyle

Survival

Startup

Cash flow positive

Time

ariannutwf.co.uk
financinggrowth.co.uk



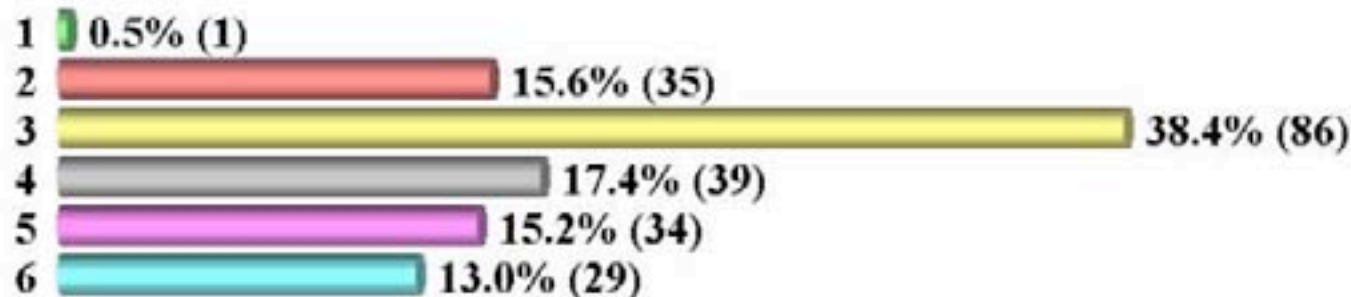
Cyllid Cymru
Finance Wales

A) How much do you expect your (or your clients business) to grow in gross profit per year over the next three years?

	Growth	Tick one
1	Shrink	
2	Grow with GDP (i.e stay the same size in real terms)	
3	Up to 15% pa (one half bigger)	
4	15 - 25% pa (double in size)	
5	25- 50% pa (two to three times bigger)	
6	More than 70% pa (five times bigger)	

A) How much do you expect your (or your clients business) to grow in gross profit per year over the next three years?

1. Shrink
2. Grow with GDP (i.e stay the same size in real terms)
3. Up to 15% pa (one half bigger)
4. 15 - 25% pa (double in size)
5. 25- 50% pa (two to three times bigger)
6. More than 70% pa (five times bigger)

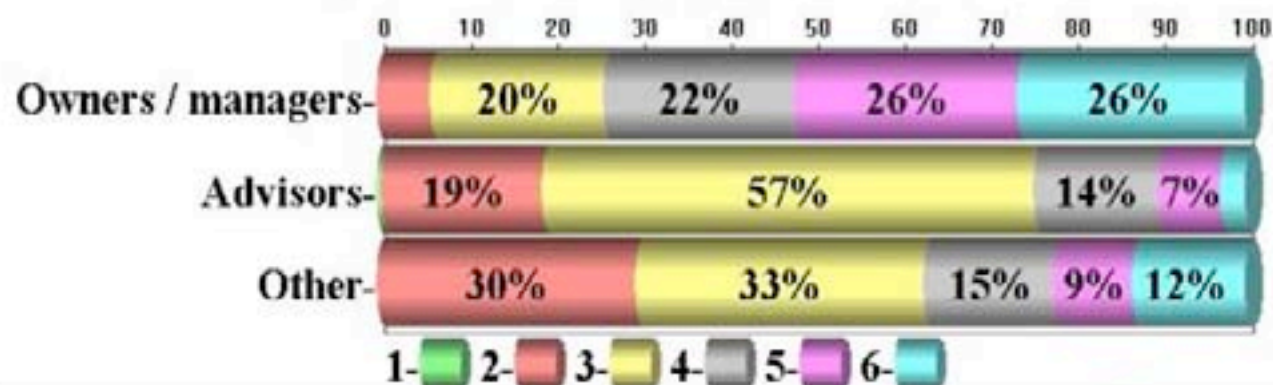


Total: 224

Slide: 3

A) How much do you expect your (or your clients business) to grow in gross profit per year over the next three years?

1. Shrink
2. Grow with GDP (i.e stay the same size in real terms)
3. Up to 15% pa (one half bigger)
4. 15 - 25% pa (double in size)
5. 25- 50% pa (two to three times bigger)
6. More than 70% pa (five times bigger)



Value added and VAPE £

ROCE > to ROPE

Measure of true value creation in people businesses

Gross profit i.e. sales less cost of goods sold including bought in labour
(I.e. freelancers and contractors)

Divided by all salary and wages costs (including Directors emoluments as dividend)

<£1 getting started or going bust

£1- £1.5 just surviving or growing fast

£1.5 – £2 succeeding or growing slower

£2-3 – successful = real value creation

£3-4 – Sustainable = potential for value distribution

>£4 either illegal, transient or in harvest mode

Business Typically Develop in Phases

Establishment and Survival

Take-off and Growth

Taking Stock and Professionalising

Renewal and Regeneration

Evolution Stages

1. Growth through creativity
2. Growth through direction
3. Growth through delegation
4. Growth through co-ordination
5. Growth through collaboration

Revolution Stages

- 1. Crisis of leadership
- 2. Crisis of autonomy
- 3. Crisis of comfort
- 4. Crisis of red tape
- 5. Crisis of ownership

Growth Stages - Churchill & Lewis - age and complexity

Stage 1 Existence

Stage 2 Survival

Stage 3 Success

- Disengagement or Growth choice of the 'owner'

Stage 4 Take-off

Stage 5 Resource Maturity

Growth models

These "phases" of development have imprecise boundaries. Different stages are not necessarily related to firm size or age.

Not every firm goes through each stage.

Accomplishing painful transitions holds the key to successful and sustained growing business success

B) Please rank the three most significant business issues that keep you awake at night!

	Issues	Rank 3 issues only (highest: 1, lowest: 3)
1	Improving productivity	
2	Growing without losing control	
3	Intensity of competition	
4	Recruiting and retaining key personnel	
5	Product innovation	
6	Enhancing customer service	
7	Raising further finance	
8	Managing cashflow	
9	Geographic expansion	
10	Achieving liquidity	

Please rank the three most significant business issues that keep you awake at night!



Priority

Slide: 4

Please rank the three most significant business issues that keep you awake at night!



Priority - Owners / managers

Slide: 4

Please rank the three most significant business issues that keep you awake at night!



Priority - Advisors

Slide: 4

What is the principal lever you use to keep control of your business?

	Ownership & Control	Tick one
1	I sign all the cheques	
2	I trust my accountant	
3	I control 100% of the shares	
4	I control 75% of the shares	
5	I control 51% of the shares	
6	I have a great team aligned to my goals	

How successful are you at recruiting and retaining the senior management team?

	Recruiting & Retaining	Tick one
1	Always successful	
2	3 out of 4 my senior hires work out	
3	About half my senior hires work out	
4	Less than half my senior hires work out	
5	I never try to hire at this level	
6	I've had such a bad experience I'll never do it again	

Business Typically Develop in Phases

Establishment and Survival

Take-off and Growth

Taking Stock and Professionalising

Renewal and Regeneration

Stage 1: Establishment and Survival

The key tasks are:

- Identifying the opportunity and understanding the market.
- Developing the product or service.
- Building credibility.
- Winning customers and generating cash.

Stage 1 Firms typically have:

- A pronounced external focus.
- Simple, ad hoc systems and controls.
- Vague, overlapping responsibilities.
- Concentrated - but not necessarily tight - control.
- Narrow product range often single products

The key tasks are:

- Acquiring adequate resources.
 - People, space, finance.
- Refining the original product.
- Broadening the scale of activity and introducing new products.
- Building marketing & distribution channels;
- Expanding the customer base, generating volume and turnover

Successful fast growth small firms are characterised by:

- Tremendous esprit de corps and excitement.
- Self confidence; unafraid of competitors.
- Sporadic attempts to systematise activity.
- Rapid growth in staff numbers
- Ability to replicate initial product success.

But rapid growth creates new problems:

- Developing imbalances between departments.
- Confusion of roles among senior management
 - not letting go.
- Weakness at middle management level.
- Diminishing sense of direction and deteriorating communication.
- Fire fighting rather than planning.
- Never having enough time.

This process often starts in response to a "crisis":

- Increasing turnover accompanied by declining profitability.
- Intensifying competition - from large competitors and imitators.
- Withdrawal of the founder, implicitly or explicitly.
- Deteriorating standards and disaffected customers.
- Underpinning this transition is a simple acknowledgement -

"WE CAN'T GO ON LIKE THIS"

In response to such crises the firm will typically:

- Formalise systems and procedures.
- Invest heavily in support services: IT, personnel.
- Analyse competitors and customers systematically.
- Become more selective about its business.
- Develop formal strategies or plans.
- Decentralise responsibility and decision making.
- Recruit professional, outside managers
- Start to use advisors intensively

Owners only
My advisors add the most value by

	Advisors	Tick one
1	Challenging me and my team	
2	Helping us solve problems	
3	Delivering a cost effective service	
4	Introducing new potential recruits	
5	Introducing new customers	
6	Buying me a nice lunch	

But a number of difficulties are encountered in doing this:

- Reluctance to remove long serving, senior staff.
- Recruiting "good" outsiders, particularly at senior level.
- Erosion of the founding culture and a diminished sense of commitment.
- Persistence of established, proven way of doing things.
- The challenge is-

How to make consolidation exciting.

Managerial style: is there a bias towards:

- Informal systems, control and communication
- Continued senior management involvement in day to day operations
- 'Functional' board with few outsiders
- Reliance on a few sources/types of information and advisors

It is difficult to reconcile this style with the requirements of growth

Managerial perception:

does the management team:

- Have a clear vision of the future shape of the business
- "See" new opportunities and areas of development
- Recognise the need for continual change
- Focus its attention outside the firm
- Take a long term view of the future
- Operate with a strategic outlook

if not, it may not be possible to go further with this team

Advisors only
My clients mainly

	Clients	Tick one
1	Have an explicit 3 year strategy for growth including a plan for increasing management capacity to achieve growth	
2	Operate with an annual budget only and a general aspiration to grow	
3	Operate from day to day with little apparent strategic direction	

Limited Managerial capacity

- "We have neither the time nor the management to grow any faster"

Sustaining growth requires:

- An MD not continually at full stretch
- Experience in recruiting and integrating outsiders
- Continued, rapid development of internal management resources
- Broad base of skills and expertise

Corporate renewal usually entails:

- Identifying alternative
 - Routes to growth.
 - Areas of opportunity.
- Building new skills and capabilities.
- Replacing ossified structures.
- Redefining the founders role - recruiting a new CEO

Creating a new sense of purpose and direction.

Businesses in Wales

	Growth opportunities	Tick one
1	Have great growth opportunities	
2	Have limited growth opportunities	
3	Have no growth opportunities	

The support network for business (Finance/Education & Training/ Government Services) in Wales is

	Support	Tick one
1	As good as anywhere else in the UK	
2	The best in the UK	
3	The best in Europe	
4	Mainly good for Finance	
5	Mainly good for Education and training	
6	Mainly good for Government Services	

What mainly stops Businesses in Wales growing

	Barriers to Growth	Tick one
1	Cannot grow due to lack of management ambition and capability	
2	Cannot grow due to lack of finance	
3	Cannot grow due to lack of skills	
4	Cannot grow due to lack of services	

Growth

“Growing and building a sustainable business of significant value is like running a marathon... it’s a good idea to practice -but no matter how fit you are you’re going to ‘hit the wall’ at some point.”

“Getting through the wall is more a matter of character than technique ..you’ve really got to want to do it enough”

The odds.....

VC backing succeeding and successful Co's

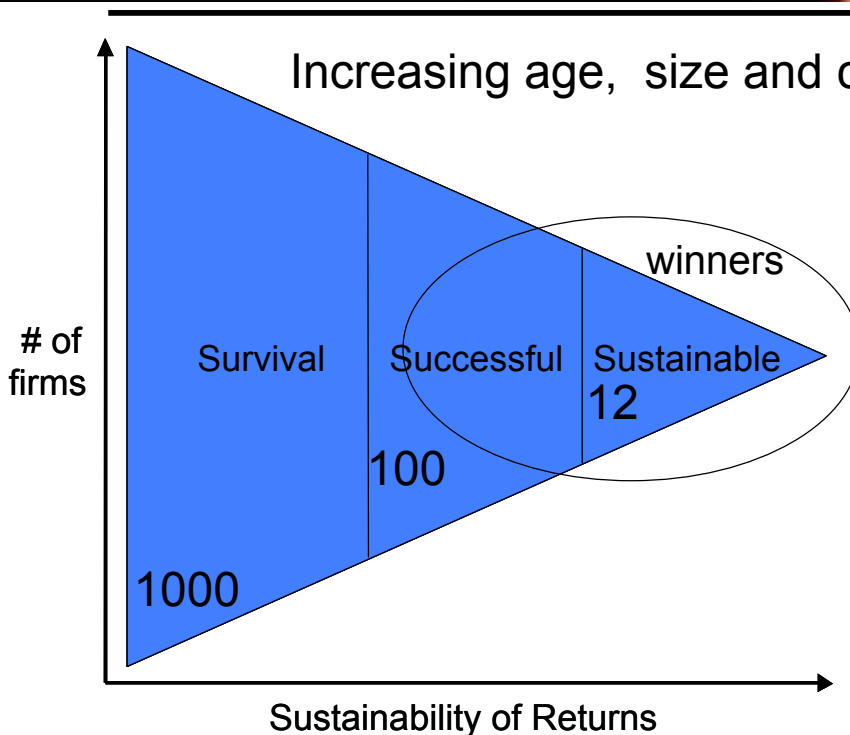
218 Ventures over 10 years

- Total Loss 15%
- Partial Loss 25%
- 5-10 X Original investment 8%
- > 10 X Original investment 4%
- Modestly Successful (1- 4 X) 48%

Median return on investment after costs ca 10%

For seed funds the median return is 0%

Picking winners?



SO....either

- Do lots

or

- Focus by sector and always

- Get close

- Stay close

- Follow your winners

- Cull losers early

Grow on...

Good luck

jbates@london.edu



ariannutwf.co.uk
financinggrowth.co.uk

 Cyffwrdd Cymru
Finance Wales

Ariannu Twf Financing Growth

ariannutwf.co.uk
financinggrowth.co.uk



Cyllid Cymru
Finance Wales