

Emerging companies



START-UPS

Shockproof: New businesses have to manage constant challenges

SUCCESSFUL STICK IT OUT

The biggest threats to many new businesses don't come during the heady start-up phase of their operation but in surviving their first five critical years.

Report: Jackie Range with Jane Lindhe

● Entrepreneurs know staying power and patience are required to get through the tough times. But for many the biggest challenges don't always come at the start.

Rob Honeycombe, managing director of inner-city Brisbane property firm Bees Nees City Realty which ranked 80 in the 2011 *BRW Fast Starters* list, up from 97 the year before, found the fourth year of business was the hardest.

"The property market cooling for a second time in three years post-[global financial crisis] was definitely something we didn't see coming," Honeycombe says. "We had staffed up as confidence grew, only to have to again downsize and bunker down."

Bees Nees was forced to lay off four

staff in 10 months, the company's revenue dropped about 25 per cent below projections in the business plan and Honeycombe – busy with a general management role – also went back to selling property.

"You write your business plan and think that you've got it mapped out and even that raw enthusiasm of the first couple of years keeps you forging ahead but once you get to year four and five, I think, maybe, that some of the enthusiasm has waned a bit and you really have to have a lot of patience," Honeycombe warns.

"Things never quite turn out the way you hoped, albeit we're still pretty positive about things, we're still growing but yeah, there's always a surprise

around the corner that you can't plan for."

Honeycombe's experience isn't unusual and illustrates that for many new businesses, the hardest times don't always come in the start-up phase. Indeed, 57 per cent of the fast-growing businesses on this year's *Fast Starters* list found the hardest year came after their first year of trading.

Auto King Mobile Mechanics, a company that takes car maintenance to its customers and is placed 91 on this year's list, also found its fourth year was its toughest. At that point, relations with its workforce became more formalised and the divide between the management and contractors widened.

Chief executive Peter Hill describes it as a transition, "from being mates with a few contractors to becoming the arsehole bosses of 10 contractors.

"Installing GPS in their vans is a good example of the ever-growing divide between 'us' and 'them'," Hill says.

The GPS systems help the firm to assign jobs to the vehicle closest to the customer, saving on travel time and fuel. But they also revealed "isolated instances" when contractors were using the vehicles heavily at the weekends and doing jobs that they did not record, Hill says.

The global financial crisis also served up woes for Andre Tassone, managing director of ATSys, which does control systems engineering services. ATSys came 79 in the *Fast Starters* list.

"Most of the regular work in (the) mining industry came to a halt," he says. "We had to rapidly diversify and find new clients [and] industries to work with."

Hitting hard times in the company's fourth year was a learning experience for Honeycombe.

"Financially it was a lot better than the first year, of course, but I guess you always expect your first year to be tough, so the surprise of the last 12 months has been ... it just wasn't expected," he says.

"Year one, although it was low revenue, [went] according to plan, so year four, although the revenue was a lot better, was still disappointing, looking back at the plan [to] where we'd hoped to be at that stage."



Raw enthusiasm keeps you forging ahead for the first few years but then things can get tough

Rod Honeycombe, Bees Nees

TOP TIPS TO SURVIVE THE FIRST FIVE YEARS

YEAR ONE: Hire the right people at the beginning. It's better to hire someone who's hungry and really wants to contribute to the business, even if their skills are slightly lower than other candidates.

YEAR TWO: Keep marketing hard. After the novelty of being a new option for potential clients has worn off, keep working to keep your company highly visible and in front of them.

YEAR THREE: Don't staff too thinly. It's better to have enough staff to handle the work you have, rather than being forced into bad hires because you need to service business.

YEAR FOUR: Stay the course. Times will still be tough, especially after you get over the initial high of having your company up and running.

YEAR FIVE: Be prepared to find yourself in no-man's land, neither big nor small. Now may be the time to push forward and expand, or scale the business back to something that's easier to manage.

A key lesson from the tough times for Honeycombe is that there's value in focusing on business with recurring income. There are two sides to Bees Nees' business; selling property and managing property for investors.

"The management part of our business is growing quite well but the sales part of our business has reduced in size," he says.

"We've been very fortunate that we've built that management side of our business because that's got a recurring income. Provided you look after your clients they'll stick with you, whereas sales turnover can go up and down, independent of whether we're doing a good job or not."

Cutting back on staff and losing good people is frustrating. And the inevitable hiring phase later, which he predicts along with a rebound in the property market, will expose the company to more cost.

"What concerns me most is that when the market improves we're going to have to find new people and bring them through all that training again," Honeycombe says. "There's a dollar cost but there's also just the time in retraining new people and the loss of training that you've given that staff that had to go."

In the meantime, the business has had to adapt.

"I guess you've just got to keep your head down and your bum up," Honeycombe says.

"We're only a very small business. No one in the team is beyond having to get in and get their hands dirty."

Still, for many young companies, the first year is the biggest hurdle and 43 per cent of companies in this year's *BRW Fast Starters* list say it is the toughest.

Online retailer of designer furniture Fidarsi Furniture – number 62 on the list – found it hard at first to gain acceptance, making year one of the business its biggest challenge.

"As young entrepreneurs, suppliers and partners didn't take us seriously," Fidarsi's chief executive, Neil Singh, says.

"Human perception based on our appearance and age was remarkably evident. We had to work twice as hard to prove ourselves to earn their trust and respect."

The first year was also the toughest for 24 hour fitness club franchise Anytime Fitness Australia – number 46 on the list. Master franchisors Justin McDonell and Jacinta McDonell-Jimenez had to sell a new concept to the market – smaller 24/7 fitness centres – and also raise funding.

Crea Laboratory Technologies, which sells and supports scientific instruments and was placed 69 on this year's list, also faced a difficult first year.

Managing director Chris McCrea faced a legal attack.

"There was legal action from my former employee, which was unexpected and draining on the funds available in the company at that time," McCrea says.

Blake Reid, managing director of food retailer Beach Burrito Company also nearly came unstuck in the first year.

"My metrics were incorrect and when put into practice we nearly lost all our money, which forced me to work unthinkable hours to keep us afloat," Reid says.

Never having managed a business before made the first year the toughest for Sadanand Marathe, chief executive of IT professional services and recruitment firm Atlas Consulting, rated at number 89 on the 2011 *Fast Starters* list.

"I knew the business well from (the) buy side, but not from (the) sell side. I had to learn the ropes on the job," he notes. *BRW*.