

CO-GUIDES

# The Five Foundations

Your Guide to Building a Successful Business





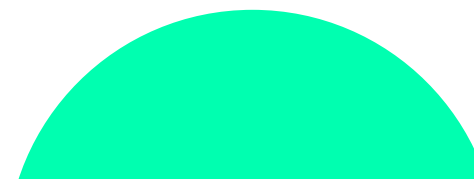
# Hello there!

If you are reading this, you are probably one of the UK's 5.8 million small business owners. Congratulations on setting out on your business journey – we know it takes a leap of imagination (and faith!) to make those first steps.

At Co-, we understand it's not all plain sailing from the get-go. You may be experiencing some gaps between your aspirations as a business owner and your skills and knowledge, and you may even be struggling to get your business to work, or work in the way you want it to. That's why we've put together *The Five Foundations – Your Guide to a Building a Successful Business*.

Most people running a small business have had no training in business and often have had no previous experience. Co- was set up as an accounting service to start filling in some of the gaps in training and knowledge for small business owners. As accountants, we are in a great position to support you on your journey. Not only do we know your numbers, but we have encountered scores of businesses in the same situations as you.

We're delighted to share *The Five Foundations* with you. This is the first step in our *Improving the Numbers* initiative, AKA the Co- approach to business development. With *Improving the Numbers* we introduce our clients to the mindsets, skills and practices of successful business owners.





# The Five Foundations

Each Foundation is important in its own right, but they are designed to work together.

1. Goals & Drivers
2. Return on Investment
3. Working *on* the Business vs Working *in* the Business
4. Team Dynamics
5. Accountability

# 1. Goals & Drivers

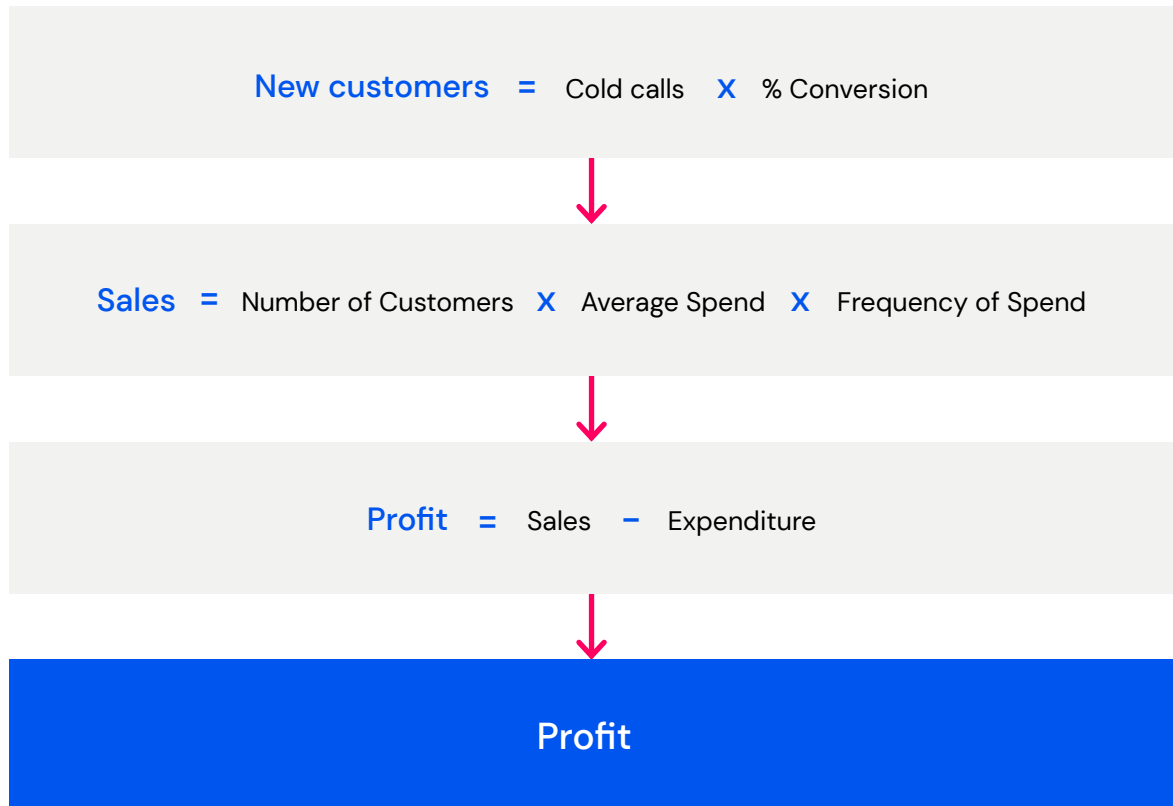


When you start out in business, your goals can be very personal – ‘I need to get out of my job.’ Or they can be about the wider world – ‘We can do this better.’

For us, a successful business gives the owner what they want. And whilst what business owners want is diverse, it is always some combination of money, time and fulfilment in what they are doing.

In terms of the role your business needs to play, it is simpler still. The business needs to provide the resource for those goals, i.e. money.

Therefore, business goals are often very similar from business owner to business owner and boil down to some very simple numbers: **profit** and **money in the bank**.



This is hardly news to anyone in business, but what is important to understand is that it is impossible to work on profit or money in the bank directly. These numbers are results. They are the outcome of some formulae.

For example:

$$\text{Profit} = \text{Revenue} - \text{Expenditure}$$

Trying to work on profit directly is like trying to win Wimbledon by playing with the scoreboard. It just doesn't happen that way.

This is where drivers come in. If we want to achieve Profit, we need to work on the drivers of profit. Looking at the above formula, we can see that we could increase sales or decrease expenditure if we want to work on profit.

Let's say we decide to work on **Revenue**. We soon realise that revenue is also just a result.

Here is the formula:

$$\text{Number of Customers} \times \text{Frequency of Spending} \times \text{Average Price}$$

Now let's say we decide to work on the **Number of Customers** we find that is also just a result. It is the result of our marketing.

Here we don't even have a formula to work to, but we have some factors which we know contribute:

- Marketing activity
- Branding
- Effectiveness of sales conversations
- Price
- And many more

Let us now say we have identified telesales as a way to get more customers. Now we have a driver we can work on directly. If we call more businesses offering our service, we can expect to get more customers, make more sales, and profit.

So, one of our business skills is identifying what actions will best drive our numbers to produce the goals we desire. The problem is that there are often many credible options we must choose between, which brings us on to our next concept, Return on Investment.

#### ACTION POINTS

Get clear on what you want from your business. Write it down and make it as specific as possible, especially in terms of the money you want from your business.

Identify three drivers that will make a difference to your profit. Begin working on one of these drivers immediately.

# 2. Return on Investment



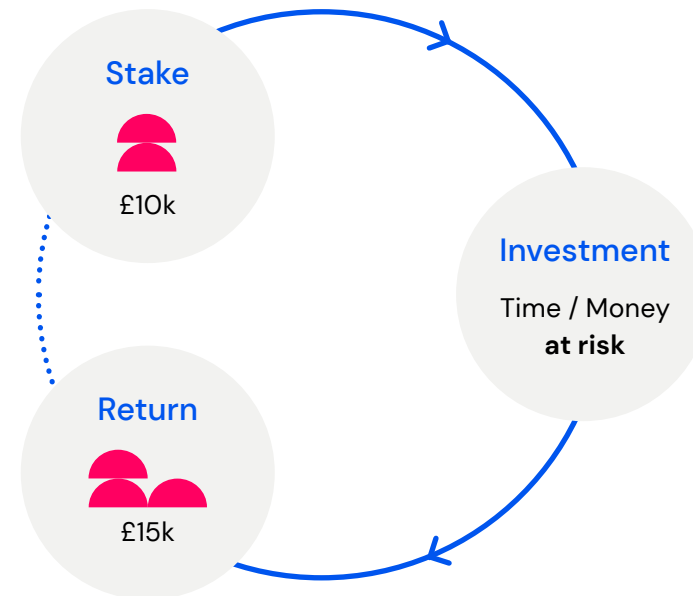
We understand that our business needs to make money, but from talking to hundreds of business owners, we have found that the actual process of making money in business is very unclear to people.

Most small business owners come to their position having been an employee. In the world of employment, making money is associated with working more hours or securing a better salary. We bring this into our business, thinking that if we work harder or prove our value, we will make more money, but making money in business is a fundamentally different process.

It is a process called Return on Investment, and it is vital business owners understand it.

The process starts with putting some money at stake. Let's say we have £10k we are prepared to put at stake.

The next step of the process is to spend this money. Now we have less money and more expenditure. Of course, the intention is that some money comes back to us due to spending and this is the return. Let us say £15k comes back to us as a result. We have now made a £5k return on investment.



**There are some essential elements to the process that are worth underlining:**

### **PUTTING SOMETHING AT STAKE**

Without something to put at stake, you can't make money in business. The 'something' doesn't have to be money. Often an important part of what business owners put at stake initially is the value of their own time. When the business owner walks out of a salary to start their new venture, the loss of earnings is the money put at stake.

### **RISK**

When the money or time is spent, it is at risk. It may or may not come back with a return. There is a saying in business – 'Profit comes from risk'.

Sometimes, people associate this process with gambling, but the process is fundamentally different from gambling in one way. In gambling, you have no control over the result, but in business, the business owner as far as possible manages the outcome from start to finish.

At the start of the process is a phase called 'Due Diligence.' This is where the risks are identified, the reward evaluated and as much as possible is planned before committing to the risk. The bigger the risk, the more time and effort will be put into due diligence.

At bottom, this is what the financials of a business plan are all about. They are a way to plan the profitability of your business, and risk management is a key skill for business owners.

### **RETURN**

First of all, we need to know what our return is. For this, we need accounts showing our profit.

Then it is no good if our stake of £10k coming back with a return of £5k. That is too little return, and for most of us, it is also no good if it comes back in 10 years. We need to be planning for a reasonable return on a reasonable time scale.

There will always be a choice about where to invest, which is really about which investment is most likely to secure the best return. Making these choices is one of the most privileged parts of being a business owner.

### **ALWAYS INVESTING**

Often people are conscious of the investment they are making when they start up in business, but over time the idea that investment is part of business can disappear. We recommend looking at investment in a different way we call 'Always Investing'.

In this way of looking at our business, everything we spend money or time on is an investment. Even reading this document is an investment – the only reason to read it is the hope that you will get something from it.

When we look at our money and especially our time in this way, we start to see ways of immediately making money and improving our business.

#### **ACTION POINTS**

Identify an amount of money you are willing to put at stake in your business. It's fine if this is represented by a value of your time. We recommend not risking any more than you can afford to lose.

Identify three possible projects in your business where you can see you can make a return. Choose one to pursue.

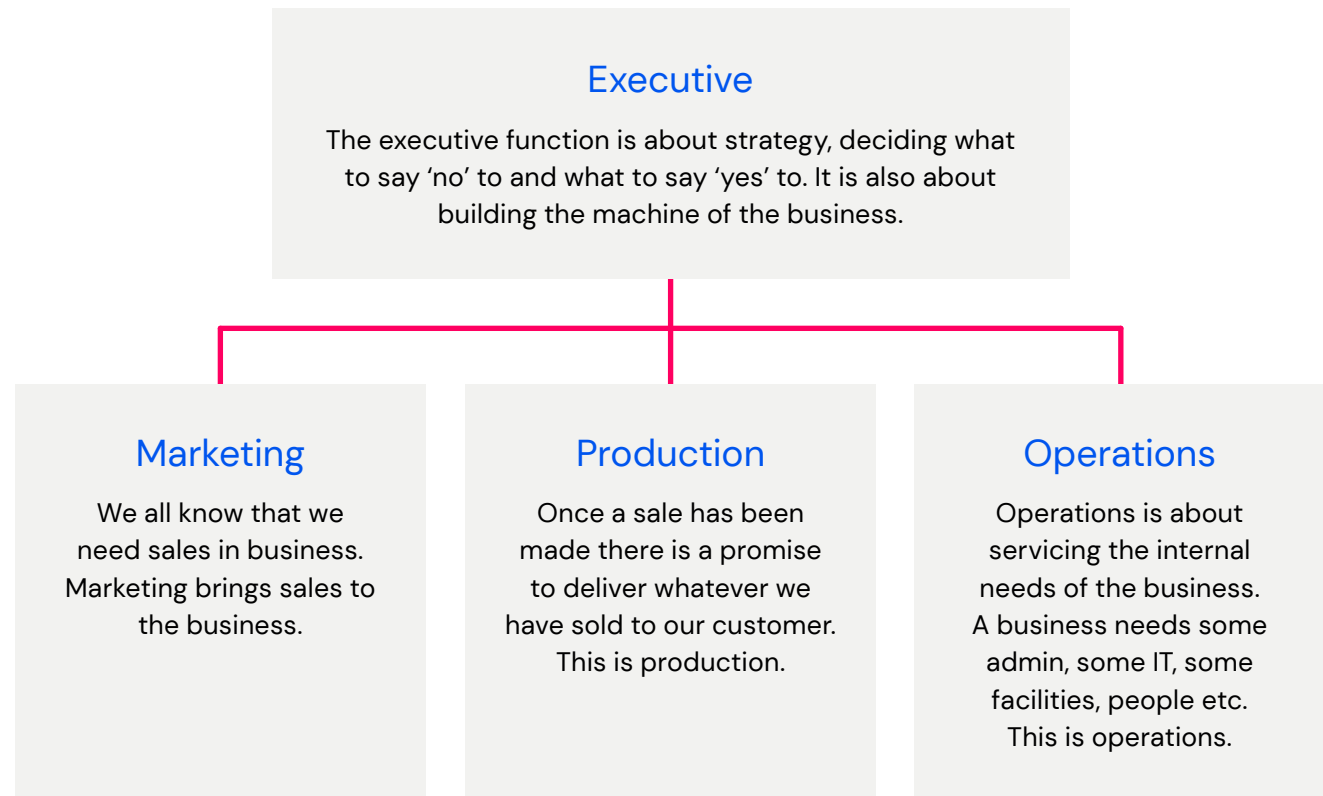
# 3. Working On The Business vs Working In The Business



To understand the idea of Working *On* The Business vs Working *In* The Business, we first need to know that all businesses have four main functions:

- Executive
- Marketing
- Operations
- Production

Working on your business vs working in your business is an idea made famous by Michael Gerber in his book *The E-Myth*. It is required reading for all aspiring business owners, and if you become a client, we will buy you a copy.





## Working in the Business is working in the bottom tier of Marketing, Production and Operations. Working on the Business is working in the Executive. It is the job of creating the machine of your business.

Many small business owners fall into the trap of spending more and more time working in the business and less and less time working on the business. Often this is because this is the work the business owner understands and feels comfortable doing.

*The hairdresser sets up a hairdresser salon. The accountant sets up an accounting practice. The decorator sets up a decorating business.*

The other reason is that this work leads more directly to cash.

*The haircut is followed by payment from the customer. Bringing in a new client leads to some new fees for the accountant.*

On the other hand, building up the processes and collateral for marketing is more long term.

There are two problems with this. Firstly, building the business as a functioning system gets neglected, and therefore the business becomes dysfunctional. The other problem with spending your time as a worker in your business is that the time spent is often not a good return on investment.

In corporate business, you can see the relative value of the different business functions with the kind of salaries they command. Working in production is usually less well paid than marketing because bringing in a new client is more valuable than servicing an order.

For our hairdresser setting up a hairdressing salon, it is clear that we can reasonably rank the following tasks in order of their value to the business:

- An hour spent bookkeeping.
- An hour spent cutting customers hair.
- An hour spent attracting new customers for the salon.
- An hour spent devising a system for attracting and keeping high-quality stylists in the salon.
- An hour spent developing a marketing plan that increases the numbers of customers year on year.

Our job in business is not to do the work but to make sure the work gets done and is there to do in the first place. To build a functional business, we must understand return on investment and pass on low-value tasks as quickly as possible.

### ACTION POINTS

Identify something you can **delegate** to free up your time for more valuable work in the business

Set aside **regular time** in your diary to work on the business. Schedule it as a repeating event.

# 4. Team Dynamics



Once we understand *Working on the Business*, it quickly becomes clear we will need a team. At Co-, we recommend that all business owners see success in business as a team game.

You might not have any employees, but you probably have more people on your team than you think. Maybe you work with freelancers? And you probably have people you turn to for advice.

As we build our business, we will naturally develop our team, and if we are mindful of the return on investment, we will be thinking about where our team members will perform best.

Skills are one important factor. Clearly, a trained bookkeeper will perform best in the bookkeeping department. However, there is another factor that is what comes naturally to people. Some people are natural communicators, some very shy, some love data, some hate data, some love to create and invent, some flip out having to generate ideas, some like to research before they act, and some want to launch right in.

We need to play to people's strengths. People who love communicating will do it all day long without tiring and do a great job. Get those people onto sales or training. People who love detail are perfect for project management or fulfilment.

In time we will need a rounded complement of attributes in our team, and we will begin to identify where the big gaps are. This starts with us understanding what comes naturally to us. If it hasn't already, being a business owner will expose your strengths and weaknesses like nothing else. First off, we need to find the people that complement us.

Suppose you are an extroverted communicator in life. In that case, the chances are you are not thrilled with the idea of crunching numbers, but your business needs someone like that. If you have a powerful vision for the business, you may benefit greatly from someone dealing with the day-to-day running of the show. If you are a natural analyst, you may need someone with creative flair to communicate the business brand.

## ACTION POINTS



**Watch Talent Dynamics Introduction**

<https://youtu.be/cklQ12oTgQY>



**Identify the profile that best fits you and which profile your business would most benefit from bringing into your team.**

# 5. Accountability



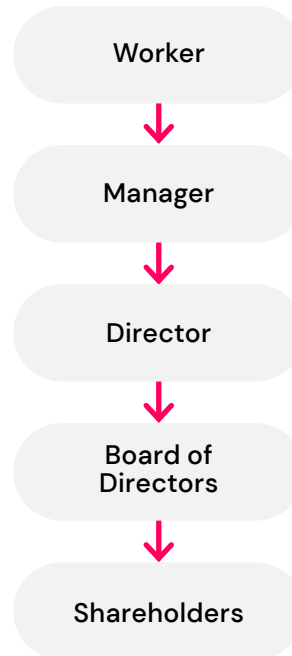
Small businesses have many advantages over corporate companies. Still, they have one major disadvantage, which is that they suffer from weak accountability.

In the corporate world, the worker is accountable to the manager, the manager is accountable to the director, the director is accountable to the board, and the board is accountable to the shareholders. At any point in this chain, someone can be held responsible for their performance or actions.

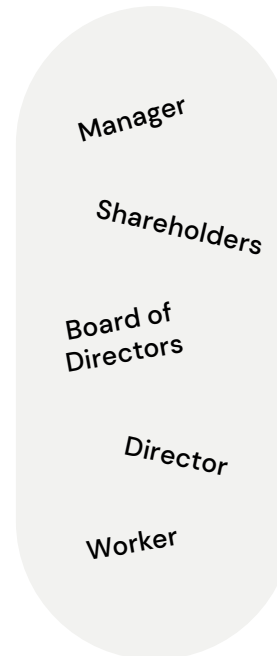
On the other hand, in small businesses, the worker, the manager, the director and the shareholder are all the same person. No meetings are ever called, and you, the business owner, never get held accountable.

To make matters worse, this is something that small business owners highly prize. We have asked hundreds of our clients what motivates them to be in business, and what comes up time and time again is having the freedom to be their own boss.

## CORPORATE BUSINESS



## SMALL BUSINESS



The problem is that without accountability, all too often, things drift. Problems can persist indefinitely in small businesses because there is no mechanism to bring them to an end. Seeing as the most common problems are things like lack of reward and overwork, the person who suffers most is almost always the business owner themselves.

As small business owners, one gift we can give ourselves is to build a system where we are held accountable in our role of Chief Executive. We need regular meetings where we report to someone on what we have and have not done. We need targets and goals. Otherwise, we could end up like any one of countless business owners suffering, subsidising our customers and struggling.

The main reason we insist on all our clients at Co- having *Improving the Numbers* meetings is not because of the brilliance of our advice or coaching but to introduce this structure into our clients' businesses.

### ACTION POINTS

Set some performance targets for yourself to achieve in the next three months.

Set up a schedule of meetings with someone where you have to report on your progress.

We hope you found *The Five Foundations* helpful. We believe planning ahead and following these action points will keep you and your business on the right course. And our clients agree.



Outstanding 9.6

Read our **129 reviews** on [customersure.com](https://www.customersure.com)



“Swapping to Co- in 2017 transformed our business. We went from having an accountant to having a business adviser, consultant, mentor, sounding board and friend, who also effortlessly does our accounts.”

**Darren Oldfield**  
Darren Oldfield Architects

“This is probably what stands out the most between Co- and typical accountants, there is a genuine relationship and access to advice at any given moment. This is exactly the hands-on approach we need at this stage of our business.”

**Mark Watson**  
Normally



Find out more about how Co- and *Improving the Numbers* can help you build a truly successful and sustainable business (and enrich your life).

[Set up a call with us today](#)

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