THE KEY QUESTION

Something every business owner has to address

Corporate Finance

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Writing by Larry Dillner and Susan Fenton, www.fwords.co.uk
Photography by Andy Scaysbrook, www.andyscaysbrook.com
Design by Jill Din, Artz, www.artz.co.uk

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Introduction

There's something very specific that every owner-manager will have to address.

Whether that's eventually, sooner, or later.

It might not be this year or the next five, but it can't be ignored.

The best way to predict your future is to create it, said management guru Peter Drucker.

And as the scenarios in this report reveal, that couldn't be more true.

Knowing they could do better on their own

It was just about a decade ago when Graham Jacobs and Paul Chapman were both running a branch of a Lloyds brokerage. It was becoming a frustrating experience. "The guys on the ground would want to do something but the idea would have to put forward for a committee to consider, which would send it up to the next committee, and a decision would be handed down three months later," Jacobs explains. "We just thought we could do better if we were in control of our own business destiny.

"Our timing for setting up Portmore Insurance couldn't have been better, because it meant that when the country went into recession, we weren't beholden to a remote corporate headquarters making decisions about us beyond our control. Now I'd love to tell you we had a marvellous strategy, but….."

Actually, though, they did. Their target was the mid-market company, too big an account for the traditional high street brokerage but not of sufficient size to be anywhere close to the top of national broker's agenda in terms of service provision.

"Also," suggests Jacobs, "when a brokerage develops a specialisation based on market activity, such as policy for electricians, then there is a danger they also develop a one size fits all approach - the customer has to fit the policy - and that results in a stack 'em high, sell 'em as cheap as possible direction.

"We sit here now, with the business having a £12million premium turnover, and we're different people in many ways, but also still the same. We're a lot more rounded, certainly wiser, and the passion is still there."

Becoming a main sponsor of Hampshire, the county cricket club, and the profile which came with it, was a real catalyst in raising their status, according to Jacobs. But the real game changer, when Portmore really came of age, was when the company was bowled what could have been a knock-out bouncer in 2012. Just two days before they were due to be paid, their biggest client went bust owing them £300,000. "We made it all back within twelve months," says Jacobs. "We were fortunate in that we started the business with nothing so we were used to just picking up the phone and knocking on doors. We still had that ethos of driving forwards. I think businesses get to a point where they can lose that impetus, and that's when they are really vulnerable."

So where will future growth come from? Probably not from assuming the role of a consolidator. "We've preferred to head-hunt people rather than acquire actual brokerages," explains Jacobs. "And we take a measured approach to employee acquisition because we would want to take on people who can bring additional skills to the business. What has helped that process is that potential employees have become available when national brokers closed their regional offices near to where we are located."

But that's not to say that Portmore are set in their ways. "If it ain't broke, don't fix it makes sense, but that doesn't mean you don't adjust or enhance," suggests Jacobs. "Your IT system might work perfectly well, but could you make improvements which would deliver even better service?" The adjustment or enhancement made by Portmore is that they've taken a 50% stake in existing firms which has enabled their owners to develop their businesses under the Portmore brand.

"Never say never about anything. If an idea makes sense, then see how you can find a way of doing it," believes Jacobs. "The joint venture model is one we'll continue to look at. What I've seen with acquisitions is that both businesses can lose some impetus as a consequence, and the process of integrating systems and culture is painful for the staff concerned. With joint ventures, it's not just the businesses but the owners who have to be exactly right. Even so, the lesson learnt is that we still need to spend time with them initially or their ethos won't be the mirror image of what we have here."

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Graham Jacobs, Portmore Insurance

Perpetuating that image also comes from Portmore developing their own talent by introducing apprenticeships and putting staff through professional qualifications.

And where do the co-founders see themselves and the business in, well let's say five years time? "We've got to be realistic," says Jacobs. "At some point, the owner-manager is going to have to sell their business to someone, unless they've discovered immortality. My view is that the owners have to allow others to take more responsibility for running the business so that it can be aligned with eventual acquisition, whenever that might be. The owners have to be in a position where they are not directly involved in the day-to-day operation, the nuts and bolts."

Achieving consistency is the challenge

"For ease of deal, you can't beat a management buy-out. You could invite an element of competition. The temptation is that if the business is strong there are opportunities to put a lot on the bottom line. But if other, similar companies are also coming to market, you could be diluted. So it might be best to discount for peace of mind, especially since there's a trend for buyers to take only a majority share, which means that sellers don't get all their money upfront anyway."

David Leyshon speaks from experience. He bought out the UK arm of Butler International which he had been running, and then acquired CBS Appointments to form CBSbutler. He and his finance director would like to realise their investment in time, and rather than go straight to the open market, they'd want to consider selling their combined share to the existing management.

Leyshon has no plans to wind down in a run-up to any exit. "Financially I'm secure but I've built this business and I want it to continue to be a success," he explains. "Recruitment is a very competitive market, and if we get complacent and take our eye off the ball we would go backwards and lose share very quickly. I don't have the luxury of just walking away."

As part of the grand plan he has recently appointed his successor as MD, Bernard Ward, who comes from recruitment giant Reed, and instead has taken on the role of chairman.

Overseas operations make up about a quarter of turnover - the company is working with more than 1500 employers globally - and a strong international presence is important, Leyshon believes; without it, recruitment agencies are not deemed to be "particularly sexy."

But the challenge is achieving consistency with the company's values and market positioning in the UK. "I hold my hands up – that has been my biggest issue," avers Leyshon. "I would suggest it's the same for any business that has remote operations."

Take Germany for instance, where the company was unable to move the value chain upmarket to a more white collar population from the blue collar, manual labour core market it had there, which didn't fit either with the company's brand or its margin requirements. CBSbutler also decided to pull out of Qatar. Leyshon explains the difficulties there: "Both candidates and staff have Dubai on the doorstep, which is seen as a far more desirable location, so it's hard finding the quality of talent and getting them to stay there for any period. If you're a single guy I can't think of anywhere worse to work; if you're married with a family there are education issues, and it's not much fun there for females. And in Qatar as in Saudi there's no recourse if you don't get paid – and they know it," adds Leyshon. "Money talks – and they have all the money."

Talking of money, Leyshon owns 53% of the business and his finance director 15%. A further 15% is owned by two other directors and the remainder is available for share options. The directors have avoided taking on outside investors. "We took the view that we wanted a bigger piece of a small cake so we could be in control of our own destiny," says Leyshon.

He admits there were times when they stretched themselves financially to keep it that way, with a "fair chunk" of mezzanine finance and "maxing out" on invoice discounting facilities, which are important for cash flow. "I'd like us to be cash positive but given the nature of the business I don't think that will ever happen," he comments.

He concedes that having external investors would have enabled a more aggressive growth trajectory and bigger scale. "In some ways I regret it, as it would have given discipline and pressure; you can become too comfortable when you have built a critical mass," he suggests. "But I'm proud of the fact that we've not had to rely on external investors to get consistent growth in sales and profit."

Has this growth been more opportunistic or strategic? "They're both extremely important but you need to have control of opportunities in terms of timing and being positioned to grab them," replies Leyshon. "You need a strategy road map but also a flexible model and agility to capitalise on what you see out of the side window."

Meanwhile, globally the shortage of skills is growing. "There have been decades of under-investment, with engineering graduates going into banking and accountancy, which is generally a major threat to competitiveness," says Leyshon.

And while that should signal more demand for the services of a specialised recruiter, companies have increasingly handled their hiring in-house since the recession rather than using agencies, he says. The availability of numerous online hiring platforms also encourages employers to cut out recruitment agencies, which has contributed to commoditisation of the industry and the lowering of margins.

"I'm not convinced the job boards are a major threat yet, because they're a bit clunky, but they will be," says Leyshon. "And, irrespective of market conditions, it's difficult to leverage margins back up."

There has also been a move to more outsourcing of recruitment to managed service providers and RPO [recruitment process outsourcing] firms, which further commoditises the supply chain and has meant payment terms being extended to 120 days or more, as these companies have to wait to get their own money before paying the agencies they use. "It's a killer, because invoice discounting terms are ninety days," Leyshon points out.

However, he adds, there's more to finding the right people than just searching on the internet and social media: "When Amazon came, everyone said that was the end of the bookshop, but it wasn't. It's a bit like that with us; the tools help to identify people but the art is in attracting them. Our people are and proactive so if our candidate says 'I want this, this and this', we can go out and find the best employer fit for them. Can job boards and paper-pusher internal recruiters do that? Our slogan, 'finding talent where others fail', is also our competitive advantage. We will take on assignments in areas where there are skills shortages, which gets our foot in the door because other recruiters tend to cherry-pick and won't go there when the going gets tough."

For example, a company operating in the former Soviet republic of Azerbaijan had failed to find the number of Azerbaijani nationals it needed to fulfil its contract obligations, says Leyshon. "After six months they got desperate and came to us and we found them the nationals they needed within weeks, because we were on the ground over there, mixing it."

Now, with an exit appearing on the horizon, the company is again on the hunt for a suitable acquisition to help grow the business. CBSbutler previously attempted a small-scale buy and build strategy, but

Leyshon says they couldn't find the quality they wanted at the right price. A planned acquisition in 2008, of a premium healthcare recruitment business, fell through on the day of completion when the margins turned out to be far lower than expected.

With 85 staff the agency has a turnover of about £55million (EBIT of about £3million). About 75% of revenue comes from contract positions, which bring the ongoing income that recruitment agencies like. Leyshon aims to grow turnover to £60million (EBIT £4million) by the end of 2016. The growth trajectory will increase from then on, giving potential buyers an interesting few years.

"We're in enough markets to get aggressive growth with the right investors," says Leyshon. "Turnover could be £120million or even £200million in five years. We can scale up easily in terms of internal structure."

For any business in growth mode, he points out, one issue is going to be management bandwidth. "It's easy to increase your footprint but I know of old that unless you have enough expertise it will start to break up," he warns. CBSbutler, he suggests, is unique in that the bonus scheme, salary reviews and promotions are based not just on sales but also on behaviours such as teamwork, customer focus and personal development. "We don't have people achieving results at all costs," he explains. It's a very holistic approach and a meritocracy."

Greater realisation of the time to go

"Owner-managers used to keep at least one hand on the wheel until they died. They wouldn't have seriously contemplated selling the business. Why else would I get up in the morning would have been their response. Today there is greater visibility about owner-managers selling, and I think an understanding that they, the business, or both, have a shelf-life, and there comes a time when the company is still making profits but it can't deliver growth."

Richard Sawney is the former CFO of Micheldever Tyre Services who went on to grow and then sell an IT business to what was then an AIM-listed company, before becoming a consultant finance director.

He has a wry smile at the thought of owner-managers attempting the sale process themselves. "It's easy to under-estimate the time and energy required, even if you know how to do it," he says. "The one critical thing is that you still have a business to run while this is all going on, and you need to devote that energy to the business. From experience, advisers are able to add to the valuation because they have the resources and are open-minded enough to identify possible purchasers, and then by managing the process. I would say the improvement can be 20%; I wouldn't put it at less than that."

Early in 2015 Sawney added the role of MD at Not Just Kitchen Ideas (three showrooms in Surrey) to his roster. He knew the family which owned the business and what attracted him was the challenge - to get the processes right, the people motivated. "That's what fascinates me," he explains.

He always starts by asking a company how it makes its profit. A straight-forward enough question, but with the answer, Sawney is looking for the kind of precision which can elude a business of this size. "A owner-manager will know roughly how much the product costs and how much they can charge for it, but actually there is affordable software available so they could address the variables and have the exact figures at any given time," he explains. "And how many companies know what their stock value is right now? IT is the means of being to see exactly what is going on from the receipt of a sales lead to eventual delivery. The trouble is that smaller businesses start with something which works beautifully at the time and they don't want to change it. So they just add an extra layer to the IT they have already got."

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The key question

Richard Sawney

"Without having an effective process to deliver financial information, valuable time and resources are consumed dealing with shortcomings brought about simply by its absence. Without the investment in IT a business starves itself of information and the ability to communicate effectively," he says. What he inherited at Not Just Kitchen Ideas was nine separate databases. If a customer happened to visit a second showroom, the two outlets wouldn't know. "I really believe a business will suffer a deterioration in the number of sales without effective IT," Sawney declares.

"I think one of the problems is that it isn't in the nature of a small business owner to share information or to tell their people how things are doing; it's not in their psyche to be open. Another problem is that smaller companies can be too reliant on certain employees - they might have the majority of sales coming from one or two people. And there are a lot of companies which grow by stealth. They don't have good sales people who can maximise opportunities, so they are reliant on repeat business or other forms of recurring revenue. While that's a platform at least, it isn't going to deliver real growth."

Finding right balance to grow core business

Having restructured his company to reduce his shareholding and realise some cash, Kevan Walsh is in a transition stage where he's finding the right balance between being a hands-on founder-manager and taking more of a back seat to let his management team run the business.

In the meantime he's focusing on growing the core business of energy procurement, invoice validation and contract management service provider Zenergi, and on expanding the company's geographical reach with new regional offices.

The biggest opportunity for the company continues to be broking energy deals for organisations, in particular schools; this offers "massive potential" as more and more become 'independently' run academies making their own gas and electricity arrangements.

Walsh has been involved in energy broking since the mid 1990s, which gave him valuable experience in the procurement of energy in the then newly deregulated market. Before setting up Zenergi in 2003, he was a sales manager for a fast-growing energy broker, and latterly a newly-formed independent electricity supplier.

"It went from ten to ninety people in a year," recalls Walsh. "It was manic, I was working until 2am and lost my marriage over it. One day I had a lightbulb moment. I happened to see a letter from a client, someone I knew, saying the customer service was rubbish and I thought I'd like to go back to the old days of dealing with customers face-to-face."

So he left and set up on his own, taking 187 customers with him "by mutual agreement." Walsh and his co-director (and now wife) Rachel, "worked our backsides off" to grow the business, with the focus on organic growth; it is now turning over £2.4million and the aim is to grow this to £6.5million in five years.

Customers, from both private and public sectors, come in all sizes, right down to Walsh's local pub, but the key factor to Zenergi's success so far has been their focus on the education sector - usually academies which even though they have their own budgets are seen as "unsexy" by competitors.

"Budgets are tight and often the head teacher or school business manager doesn't have time to sort out their energy needs," explains Walsh. "When we demonstrate we know what pains they're going through they say 'great, someone gets it'." The knack, he says, was to get involved with educational trade bodies and professional bodies and gradually become a preferred supplier so that when schools contacted their associations for advice about energy, the name Zenergi would come up. "Being the preferred and exclusive supplier gets us a lot of business and means schools tend to stick with us when other consultants then try and take the business," says Walsh. "It's a very closed network and it doesn't take a lot to get your name around there once you're in."

The potential is huge, he explains. "The government wants to convert every school to an academy as part of multi-academy trusts. There are 24,000 schools so we estimate there could be two or three thousand MATS, so our growth could be massive. The next natural progression will be to open regional offices, possibly in the north west or Midlands, where some of our staff are based. We've run the business successfully from Hampshire but since we hired our guy in Colchester we've gained 68% of the schools we could approach in Essex so we know that works."

Of course energy companies aren't known for being the best at customer service, which is the epitome of understatement. "It's our job to make our clients' lives easier, and that isn't achieved by making them listen to Greensleeves for twenty minutes when they phone you," says Walsh. "And you can ask anyone here what's the one thing Kev will lose his head over and it's a client having to ring up to ask what's happening. I expect perfection every minute of every day. I know it's not possible but it's the goal I set ourselves and I'm relentless about it."

Which is why Zenergi have their own bespoke CRM system which makes sure customers are called when they're supposed to be. "And if we don't know the answer to a question, we tell the client we will find out for them," Walsh explains. "Because that's what people want to hear." It's an approach which has been rewarded with a Net Promoter Score of just over 75%.

Walsh admits the business was started relatively unambitiously thirteen years ago "on the back of the proverbial fag packet." Then three years ago came an unsolicited offer from a potential investor. Walsh admits they didn't know how to react. "As we had no experience of this sort of thing, we thought that selling or turning the offer down were our only options. We thought blimey, that's interesting, but how do we know what we're worth?"

The wooer made "a substantial offer," he says. "We thought that was a lot of money but when we started to think a bit more about it, we realised that it wasn't that much because we would have had to find something else to do with our lives. And the new owners would have wanted us to get to milestones. I was never going to be happy with someone telling me what to do with what had been my business."

Then the potential buyer upped the offer by £2million, part funded by a venture capital deal. Walsh remained reluctant, fearing having to "dance to the tune of a VC to get extra money that I didn't really want" and being "appalled" by how much it would cost to structure the deal (about 10% of the total investment).

The Walshes decided to seek financial advice about their options which ultimately led to an alternative to a trade sale that allowed them to retain some shareholding in the business while reducing the time they spent on running it. The 2013 VIMBO (Vendor Induced Management Buy Out) basically involved setting up a new holding company to acquire the old one. It meant that Kevan and Rachel got a "sum of cash" while selling a controlling interest to the continuing management.

Ownership is now split between the Walshes, the management team, and the Employee Share Options Trust, and Walsh, as CEO, is in that "transition process" of finding the right level of involvement for himself in the business. "I did everything, then nothing," he muses. "I like going to conferences and giving presentations. I came back from holiday in May and felt massively out of the loop. What level of involvement do I need to be happy? My dream is for our loan notes to be paid off and for me to be chairman, with the whole team running it." He wouldn't rule out an eventual trade sale. "Part of me doesn't want to spoil the Zen way but quite a few larger organisations are buying energy brokers at the moment so who knows, maybe someone will decide to make a stupid offer."

What possible threats does the business face? One would be political – if Labour were to get into government and re-nationalise the energy industries, Zenergi and many other brokers could potentially be out of business. Similarly, if schools were to be put back into local authority control the business would have to shrink. But Zenergi are countering this challenge by putting some focus on the local authorities themselves. "2016 will be a big year for them with contracts coming up for renewal," explains Walsh.

What really excites 'emergency' service

Clive Nation's ambition is to be seen by banks as "their fourth emergency service" by providing everything they might need related to their cash dispensers. Though the way he tells the story of Cennox, the business he founded, it sounds like he's pretty much there already – with the installation and repair of ATMs, their signage, and the supply of spare parts. Actually what he's really excited by is the development of cutting-edge security products.

Such as his company's response to a trend for robbers to blow up cash machines (and often entire banks or shops). Cennox have developed a system that detects explosive gases and neutralises them. Then there's the system which will emit a location signal when cash is stolen from bank premises. As for bank notes, there's been a big shift away from ink dyes, the previous go-to method of deterring cash theft. Nation points out that the dyed notes can still be anonymously used in cash exchange machines, and the latest materials used to make notes don't take the dye terribly well anyway. So the next big thing is the company's cash spoiling device, which douses notes in glue if they are stolen, binding them together in a solid block.

Cennox acts as global licensor for the IP owner and this system, undergoing trials in the UK and Europe, has the potential to double the size of the business, says Nation. But more than growth for growth's sake he sees the aim as to take away the prize from robbers. "I want criminals to say 'you know what? There's no point doing this because by the time we get to the notes they'll be covered in glue and useless."

Nation has been involved in cash machines for many years. He had a business in the early nineties which he ran as a joint venture with Travelex and which helped that company achieve significant growth before it was sold. While he was at Travelex the chairman asked him to take over a small ATM division that had 100 machines. "I grew that to 1500 machines," says Nation casually. "That didn't excite me very much but what did was the idea of dispensing foreign currency."

He duly brought in the UK's first foreign currency dispensing machines and introduced currency conversion machines, which would dispense sterling in return for foreign currency. "The chairman had said 'how much do you need to develop it?' and I replied £2million and he said 'fine, get on with it'. They were the good old days!"

After a while Nation wanted to do other things and left Travelex. Precluded under his contract from working on forex for four years, Nation realised ATMs weren't off limits and he came up with the idea of an ATM cleaning service, having noticed that banks were not proactive in that area. So Cennox started trading in 2006, with six men in vans. But Nation wasn't intending to develop a stand-alone cleaning business, although he wasn't too clear about his objectives at the time. He didn't want to stand still, so he developed into

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Clive Nation, Cennox

branding ATMs. "I did it almost as something to do, rather than having an objective to form a new business," he explains. "You're either the sort of person who drives and creates or you're not, and I am. I like fixing things – there's a lot of satisfaction in making things work. It's a bit like that with business, taking an idea and developing it. So I wanted to expand and do other things."

By 2011 he had three standalone businesses, all to do with ATMs, offering servicing, signage and parts, and rebranded them under one company name to avoid confusion and to make cross-selling easier. The sales director, he says, came up with the 'land to expand' concept – "we would land a customer then expand by selling them other products in the portfolio."

In that year the business finished with a turnover of £7million, but it was "maxed out" by bank borrowing and personal funds and needed to look at the bigger picture, which involved getting on board about £2million in extra cash. After a beauty parade of potential investors, the business had offers from six - five of which were private equity firms including the newly formed Business Growth Fund.

"What I liked about the BGF," says Nation, "was that it was a new kid on the block and we would have been one of their early investments. They were flexible and we were in a good negotiating place." He also liked the fact that the BGF was owned by banks, in other words by Cennox's own customers. "I could now go back to an HSBC and say 'you have invested in us' – which was a good sales line."

The deal competed in June 2012 when Cennox had reached a turnover of £8million. The following month Nation bought another business, a loss making installer of cash machines, which meant they could bid for more works from the banks.

For the first six months with the BGF, Cennox did not hit its targets but Nation says they were "incredibly supportive" and by 2013 turnover was £15million. "A lot of people are frightened of the risks involved in taking finance," he observes. "I do admire people who don't want to take borrowing. Would I like not to have an outside investor looking over my shoulder? Of course. But we would not be where we are without them."

The next stage was to grow the US side of the company. "We had the ATMs parts business selling into the US but not doing much," says Nation. "If you're trying to develop a market in the US you need to be there; you can't simply send product over from the UK."

Nation made an acquisitions shortlist of six US companies and went on a road tour to meet them. One was a cleaning and decal company owned by an eighty-three-year-old in Montana which covered forty-eight out of the fifty states. "It wasn't making a great deal of money but it was a huge opportunity and it was a business I understood," says Nation. "It was driven by an autocrat and the people were not working as a team. My theory was if you take the autocrat out you can get the business to the next level."

Cennox bought the business for $5million in December 2013, supported by BGF money. And in 2015 they acquired another US business, a cash machine installation company in California. It was a good fit, says Nation, as the two businesses already shared a big customer, Wells Fargo. Meanwhile Bank of America were putting their installations out to tender and the purchase meant Cennox could bid without needing extra resources. Nation says that for various reasons he's missed a couple of opportunities to buy other US businesses, one of which would have been "huge" as it had revenues of $55million. But as he points out, it would have meant borrowing a lot more money and losing his majority share.

Now Cennox have a turnover of £35million and that's because the company has a strategy that allows it to take advantage of opportunities. "You have to have a game plan but be flexible enough to change and go down a different route if things change," says Nation. Having complementary partners is another important factor. Nation, an engineer by training, explains: "I'd like to think I'm measured, though possibly a bit too optimistic. Roy, our accountant, is more cautious and is good at bringing me down to earth, while Nick (who does the marketing) is more emotional."

Then there's being able to handle the pressures of (measured) risk. Nation recalls having had an idea for forex coin exchange machines while travelling back from Spain in his early thirties. "I thought if everyone on the plane is coming back with handfuls of pesetas, a coin machine would be a good idea," he recalls. "After making and installing the machines, I would finish my day job, then drive to Dover and empty the machines on the ferries. I had a young family, so it was a hard thing to do. That was a really tough time and I vowed never to put myself through that again."

Nation also has a suggestion when it comes to acquiring a business, namely the need to communicate honestly with the new staff. "Integration is so important, and for that to happen successfully you need to act quickly and decisively," he says. "Too many acquirors stand up in front of staff and say 'don't worry, it's business as usual'. That's a load of rubbish – you wouldn't be buying a business if you wanted everything to stay the same. I believe you should say there will be change but change for the better - and that those who are up for the journey will enjoy it."

Nation was sixty this year so is he considering an exit? "A lot of people would be happy to retire at my age but I don't think I'm ready to sell; I'm not thinking about an exit yet," he replies. "That's one of the interesting things about the BGF, that there's no pre-prescribed exit. Even if I got to the stage where I sold the business I'd still like to be involved. There might come a time when I've had enough but I haven't got there yet."

Ambitious but not at the customer's expense

When Steve Jacobs, then the company's sales director, acquired Phoenix Systems UK in an MBO in 2002, his initial goal was to take the turnover to a relatively modest £1million. That wasn't for any lack of ambition. He just wanted to focus on converting each sale into a relationship rather than chasing as much top line growth as possible.

Turnover at the business, a contract manufacturer in the electronics sector, is £5million, and should be £6million next year. But his ethos has meant that growth hasn't compromised reputation or relationships with existing customers because of the increased volume of work. There have been times that Jacobs has had to tell his sales people to stop bringing in new business for the time being, and concentrate on project management instead. "Concentrate on what we've got, get closer to the customers, and make sure that when we're really busy that we keep service levels up," is his mantra when that happens.

Some 70% of the business is aerospace, mostly commercial, the company works on the Dreamliner for example, and being accredited to produce to the exacting standards required is a good selling point for other sectors.

Jacobs became a business owner rather through opportunism than intention. In 2002 he was hired as sales manager by an American company called Phoenix Group International, which had acquired a struggling British electronics subcontracting business. His task was to get the business back on its feet but he soon realised that wasn't going to happen while the company was operating under a CVA [company voluntary arrangement]. Furthermore, Jacobs was reluctant to bring new customers into a business that wasn't exactly clear of trouble. So having taken legal and insolvency advice, he brought Phoenix Systems UK into being, so named to provide continuity.

One point of difference was that at a time when contract manufacturers were more interested in high volume assembly, Phoenix didn't have any stipulation about numbers. "The future of UK electronics production is based upon service offering, quality and ability more than volume," says Jacobs. And while a lot of manufacturing was going to China, the majority of the kind of aerospace work Phoenix were undertaking was staying in the UK for quality control reasons.

And by gaining Civil Aviation Authority and European Aviation Safety Agency approvals the company will have first-tier status, which will open new doors. "None of my competitors have got that," says Jacobs proudly.

He owns 95% of the business, having recently bought out the finance director (who had 35%) who intends to retire in 2017. The rest is owned by the operations director. Jacobs would like to keep the business in the family. That could happen. His eldest son, an electronics engineer, has just joined as an account manager.

Discovering the right balance

How does a business get the right balance between continuing to focus on that successful core product offering and the need to put resources into new innovations?

It's a dilemma, says Tim Critchley, chief executive of Semafone, which provides secure voice transactions for call centres and retailers which take Cardholder Not Present (CNP) payments. "Plan A is to madly exploit that core product as much as we can, to ensure it's a continued success in the marketplace. But as a business that has introduced disruptive technology, we have to be modest enough to realise that someone else could come along and do that again to us."

Semafone's strategy, therefore, entails a spot of juggling of priorities to accommodate a plan B. The latter, he explains, falls into broadly two areas, neither directly call centre related. As Critchley puts it with a horticultural analogy: "We'll plant a few things and water those seedlings. At least one of the trays in our greenhouse is related to value-added services to existing customers."

Given that the business grew out of what Critchley calls a "lightbulb moment," more on that later, does the growth of those seedlings depend on more such moments? "It doesn't sound much of a strategy when you put it like that!" he replies. "What a company has to do is hire enough good people and try to create the right environment where they feel motivated and free and able to explore new things, with inputs from elsewhere to trigger new thoughts."

The challenge with generating innovative ideas and concepts, he expands, is giving people the time and permission to play. "Something might not seem like a lightbulb moment at the time but before you know it, there could be a compelling business need. An idea can wither if no-one is given the time to nurture it, to see if there is a robust response to any objections." Critchley takes this seriously. There are plans for a Semafone innovation academy to help cultivate new ideas.

The company was founded in 2009 with the aim of resolving payment card industry compliance challenges. Historically, Critchley explains, call centre workers wrote down customers' card numbers or typed them onto a screen. That method creates a security problem, as they had access to card numbers, and the numbers were held on their computer desktops.

The lightbulb moment that Critchley referred to was around the use of a dual tone multi-frequency (DTMF) signalling technology to capture payment card data during a phone call. In other words, call centres ask customers to key in their credit card numbers into their phone keypads rather than read them out loud.

"As each number is pressed on the keypad, they are masked by a flat tone, making it impossible to identify the number just from its sound," explains Critchley. "Not only are the card numbers not heard by the call centre workers, they also can't see them - they appear as asterisks on their computer screen, so they are completely disguised. The payment details don't appear on the call recording system or enter the call centre infrastructure at all but go directly to the bank. By allowing the call centre worker to remain on the call while the customer is entering their card numbers, it helps improve the customer experience and reduces the risk of them ending the call because they've mis-keyed the numbers. But most important of all it builds customer trust and gives peace of mind - they know that their sensitive card numbers are being dealt with securely."

And that's the core value proposition that's been built on ever since. It's relevant to any environment – not just call centres – where sensitive numeric information is being relayed.

At the time the system was unique but it wasn't long before competition arrived. Suddenly there were three or four other companies wanting to make an appearance. Except that Semafone had gained the necessary "badge of innovation and credibility" by getting patents both in the UK and the USA. This led to the "finely balanced" strategic decision to sell licences to the competition, based on a minimum payment and percentage of revenues, rather than doing battle with them. One of the challenging aspects generally with IP, Critchley observes, is using it to secure sustainable advantage without always having to resort to litigation: "The only other option would have been to threaten to sue every one of them. That would have been very distracting and expensive. We felt it was in our longer term interests for the market to adopt our approach."

The company's big break in the early days was getting BSkyB as a customer, which led to a large jump in turnover in the second year. "They took a risk with a small company they believed in and took a punt on us," says Critchley. "We swallowed a very big project and needed to spend time digesting it but we delivered for them and continue to look after them exceptionally well." With some fifty customers including Virgin Holidays, The Caravan Club, and Capita, the business is now getting its first orders from BT, who are offering a hosted version of Semafone's technology called BT Secure Contact.

Turnover has grown rapidly from just £375,000 in 2010 to a forecast figure of more than £5million for 2015, and the growth trajectory is 35-40% per cent a year, with an £7million of sales in 2016. And that doesn't factor in what could be quite significant growth in North America, says Critchley. "Our largest customer there is in Canada, but the US in particular could mushroom into something very interesting. I don't want to get carried away but it could grow particularly quickly and in multiples of what the UK business is doing." Going forward, a change in the revenue model away from a high upfront licensing fee to annual licensing will build recurring revenue and spread turnover more evenly over the year.

Just over half of the shares in the business are owned by venture capital investor Octopus Ventures, following a cash injection in 2010, and by the Business Growth Fund. The founders (and their friends and family angels) have 30% and the rest is shared among staff as share options. "The shareholder list is perhaps longer than you might expect to see with a business like this," Critchley says.

Critchley is a great fan of the BGF and them of Semafone: "I often get calls asking us to be a 'poster boy' for them!" he says. "Octopus had got to a point where they were thinking of exiting but when BGF injected funds they changed their minds. I can't fault

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Tim Critchley, Semafone

the BGF – they're brilliant. They've made a real difference – there are businesses out there which would not be able to do what they are doing without them."

He foresees some kind of milestone event – not necessarily involving a change of ownership - in the next few years in order to give the investors, particularly the early ones, a return. Their involvement, he says, has been vital to funding the business's overseas expansion in Europe, US, Canada, Australia and South Africa.

In the meantime, he says that while Semafone is currently a good size - "fifty plus people who work well together and trust and respect each other" - the expected growth will allow more opportunities to be created for the staff. "If you're a twenty-something it's a very exciting place to be," says Critchley. "For example, our receptionist has moved into our finance team and has become a trainee accountant. That kind of thing gives me a lot of pride, to see our people developing as well as the company. Ultimately innovation will come from our youngest team members. They are the ones with new and exciting ideas. "

Different approach to building business

Maybe it was because he had once been a semi-professional musician, but when David Jones made the transition to running a business he soon found himself at odds with conventional wisdom.

Notably, he doesn't like selling. A challenge then for a company which aims to triple turnover in five years. So how are Frontline Communications, a round-the-clock telephone-answering service which handles around 80,000 calls each month, going to achieve that kind of growth?

"If you come to a problem without corporate baggage you have no idea what a 'normal' director would do," he explains. "The way we acquire new business is typifies that. We're not pushy or try to ram our proposition down people's throats. I hate being sold to and I hate selling. We want growth but we're going to try to do it the Frontline way."

Which is? "The ideal sales approach is consultative," suggests Jones. "I want clients to want to engage with us. A sales director once told me he had a rule that he had to meet thirty new people a month and all he would do was chat with them. I like that approach: marketing strategically by getting the message to where customers gather in the greatest numbers." So Jones has joined various trade associations in his customers' sectors. "That way I can get in front of the right people," he explains.

With the past three years about building the platform, including the CRM and other processes, the business is steady - and ready for growth. "I'm a big fan of Mastering the Rockefeller Habits: What You Must Do to Increase the Value of Your Growing Firm by Verne Harnish," says Jones. "It's about building the business to achieve a rhythm, and we're in a pretty fixed rhythm now."

The three-year plan is the springboard to take turnover to £5million at five years and £10million at ten years. Part of that growth will come from adding a training academy through which Frontline will train customers' staff.

Jones started work young – he was playing guitar with a gigging band at the age of twelve and was being paid "proper money" by thirteen. It was at university that he met his wife, an artist and though Jones still fancied being a rock star he decided he ought to get a "proper job" so he joined the call-answering business set up by his father and step-mother in 1999.

The business has had a particular specialisation in the 'care' sector, as a first point of contact for the NHS, housing associations and counselling helplines, as well as for funeral directors. Which has influenced Frontline's subsequent style. "These can be extreme life and death situations," says Jones. "Any caller we get has a lot on their shoulders so we expect the unexpected. They might be crying, laughing, shouting, swearing. They are in emotional, challenging situations. They could have lost a child or be coming off drugs."

Another service area is acting on behalf of a company's IT departments as an IT support function to deal with the basic stuff and, through a kind of "super-triage" approach, escalating more complex issues back to the client companies, which include banks and retailers.

The calls are handled in a UK office by eighty-five staff. "We started with everyone being multi-skilled but now we have to be sector specific," says Jones. "The three-year vision is to operate almost as separate businesses. The proposition is more succulent that way – developing areas of competence is an obvious win."

An in-house training programme, The Frontline Way, ensures that all team members are trained to the same level, addressing call response and call handling, with attention paid to listening skills, helpful and empathetic speaking, resolving conflict, fielding complaints, and attention to detail.

Interestingly, recruitment is not as difficult as one might expect, because, according to Jones, call centre work has lost its reputation for being low-status, "churn and burn" work. "It's no longer just for students or mums to fit around the kids," says Jones. "It's seen as a proper job because businesses are taking a different attitude to customer service. They know they need to value their customers more or it will come and bite them on the bum through social media.

"Our people have to be able to deal with customers who are a lot more knowledgeable than they ever used to be, because they've already been through the client's self-help process on their website - and are then often enraged by the time they call us."

One thing that's been crucial to success is careful cost control. Systems installed by Frontline constantly analyse the operational cost per second for each customer so they can reconcile their investment.

Jones would like to be able to add video chat to the phone services. "There are times it would be really useful to be able to communicate visually," he says.

Evolving technology of course also brings challenges. "Changes in the way people communicate are a massive risk – what if Snapchat, for instance, became the preferred way of communicating?" he ponders. "But I think there will always be times when we want human interaction; the need to speak to someone sentient."

Neither does Jones think texting can replace the human touch, though he adds that he once got into trouble for his outspoken views on that subject, in particular about short message service, while at a meeting about mobile contact centre technology. "I hadn't prepared," he admits. "We sat round the table and I said 'why are we talking about SMS? It's a blunt tool for customer service, OK for messaging but no good for interaction'. Then the guy next to me said 'we're the largest SMS provider in the UK and we're happy to be hosting this meeting."

Company ready for the new team

Andy Cassie is preparing the ground for when he leaves the UK's most prominent B2B marketing agency specialising in construction and a new management team takes over through an internal buy-out.

"You can have too much of a good thing and running the same business for thirty years does take its toll mentally, so it's a good time to get out," explains the managing director of CIB. "I think sector-wise, things will continue to improve and I want to leave when things are on a good footing." Cassie, who's sixty, intends to get out altogether. "I'm not going to be one of those founders who leaves then keeps sticking their nose in," he says.

But in the meantime, one lesson he wants to impart to the new management team is to trust their gut instinct. "Theory is fantastic but often very different from practicality," he suggests. "I'm trying to champion the idea that you need to have a sense of what the right decision will be. I could be wrong but if you don't have this basic attribute, I don't think you can create and then sustain a successful business, and it's very difficult to teach."

It was gut instinct, arguably, that led to the creation of the business in 1984. Cassie and his business partner John Woodberry, who left in 2012, had previously worked at the Royal Institute of British Architects, and saw "a clear gap" in the market for a marketing communications consultancy with detailed knowledge of the construction market.

"We saw enough in our sector to know there was no-one doing it particularly well. Market knowledge is key; anyone can be a generalist," says Cassie. "So we gave it a go, starting out in a Portakabin behind a pub. We thought 'if it doesn't work what have we got to lose'?"

Cassie reckons that kind of attitude is what entrepreneurialism should be about: "The willingness, the balls, to go out and give it a go. If it doesn't work out what have you lost; if it does work, and I think this has, it's something you can be proud of, especially given that only about 10% of companies registered in 1984 still exist. And yes, you also need to have a gut feel that it's going to work."

So when did he decide that he'd made the right decision in leaving the corporate world? "About three weeks ago," he jokes. "But one important factor was having a complementary partner. You need moral and mental support to develop and survive, someone to bounce off. John and I were two quite different people - he was more cautious for example - and we focused on different activities, but we worked well together. You need someone to support you and have faith, not just when things are going well. If that faith fades it's easy to get worn down and think 'I've had enough of this'."

Interestingly, Cassie has spotted the marketing equivalent of vinyl making a comeback. "Everyone's inundated with digital communication, a lot of it poorly executed and badly targeted, so we've been doing direct a lot more direct marketing recently," he explains. "You know, printed material through the post, but aimed at specific people and very relevant to the recipient. Even handwritten letters can be a powerful marketing tool because people actually read them."

Cassie has always believed in strategic direction because "a business needs to be clear about where it wants to go." But, he says, "strategy is there to be adjusted to adapt to market forces." He sees potential, for example, in maybe doing creative work for companies local to CIB regardless of their market sector, which would be a diversification from the core, construction-related work. "Not in media relations though," he explains, "where you have to know the market, the people and how it works to be successful for the client."

The last downturn in the construction industry, or rather the bank-induced consequences, has prompted a thought. Cassie suspects that back in 2011 their bank at the time was angling to repossess their offices in Leatherhead, which they'd bought through a commercial mortgage with the financial institution two years previously. "It was not a nice time," he recalls. "We were put into what we called special needs. There were a lot of other companies in the same position who were having the rug pulled from under them. Luckily trade picked up, but part of the deal with the bank to escape from 'special needs' was to start using their invoice financing house. That cost us a lot of money, both to move to them and to get out from them. Needless to say, CIB have now changed their banking facilities."

Cassie pauses. “Sorry if I’m rambling,” he adds apologetically, “but I’m not going to forget what they did, and I want to be open about it.” What did he learn from the experience? “Be persistent. That’s a skill-set a lot of people don’t have. And also be consistent; always believe in yourself and the company you are running. Anyone can manage a business when times are good but not when things turn sour.”

CIB have some seventy clients, across Europe. “Having a larger number of clients, takes more time and resource so you don’t necessarily make more money,” says Cassie, “but if you get a handful of clients making up 70% of your turnover and you lose one, you can be deep in the do do.”

What would he have done differently? “Everything and nothing,” he replies. “It’s all a learning experience, including the buy-out process. One thing I would say is that you shouldn’t be running a business if you don’t maintain the enthusiasm for it, because that will come across in your communication with staff and customers. Yes, you get fed up sometimes but you have to enjoy work for the business to flourish. And a self-deprecating sense of humour is mandatory by the way.”

Achieving the best possible outcome

Once upon a time there was a fledgling company which went into the Dragon’s Den, found the ideal investor willing to put in the right amount of money and support, and then successfully sold a majority stake with everyone living happily.

The story of Billy+Margot isn’t the business equivalent of a fairy tale. That’s what actually happened.

It started when Marie Sawle spotted a gap in the market. Doggy treats tended to come off the plate of their owner, which isn’t usually that great for the canine palate.

“What excited me was creating something which has a need, that nobody has done before, and then seeing the brand I created is what people want,” she explains.

The company started with iced treats, but clearly that’s more restricted by seasonal demand, so the repertoire was expanded to ‘dry’ treats such as venison biscuits, popcorn even. She adds the prefix nutritional because her products are made up from human-grade ingredients, and are free from artificials and colouring. To expand further, a range of tinned ’wet’ everyday food was launched last year.

“If you have an idea for a fabulous new product, see if there a market for it first,” suggests Sawle. “And if you want to launch a product to rival what is already available, then it has to be demonstrably different, and in my view, better.

“Obviously I couldn’t grow a business without staff, stock, and premises to put them in, so even though the manufacturing had been outsourced, finance was going to be an issue.

“The best time to start a business is when you are very young and have no mortgage so you have nothing to lose, or when you are in a position where no matter how much money you have put into the venture, you can afford to lose it all.”

Maybe partly with an eye to profile, and gaining a powerful mentor, three years ago Sawle went on to the television programme Dragon’s Den. The three male panellists didn’t bite, but the two women wanted a stake, and Sawle decided to sell 40% to Deborah Meaden, influenced partly by the business woman’s work with the Dog’s Trust.

“She gave me the discipline, and gave the company structure,” says Sawle. “So when I prepared sales projections for example, I also had to produce a validation, It was like Deborah was there on my shoulder.” Part of that discipline was producing a booklet on the company’s brand values - and the justification for them.”

Marie Sawle, Billy+Margot

In just three years, Billy+Margot have managed to get their products into the best part of 1000 retail outlets in the UK, are listed by Ocado, and sell through distributors in Europe, Asia, and the Middle East.

Arguably Sawle has done the hard bit, establishing the market, the brand, the portfolio of product, the channels; and in just three years. But she isn't bowled over by her achievement exactly. "If I am going to do something, it has to be done properly," she explains.

"Having Deborah involved enabled me to look at the business objectively. When you start, it's like this is your baby, but you have to accept that one day, children are going to fly the nest. Right at the outset of Dragon's Den it was made clear that an investor would want an exit in three to five years.

"My aspiration was to create a successful global brand, not to be the majority shareholder of a business which wasn't going to achieve that. And there is a limit to what the owner-manager can do, both in terms of the time and experience that you can apply. I can remember finally accepting an invitation to go to dinner with friends and beginning to fall asleep at the table."

So she sold a majority stake to The Company of Animals, manufacturers of pet accessories. "My pride is that I created Billy+Margot, not that I own it," says Sawle. "You have to ask yourself the questions - what do you want in life, what are you chasing?"

Clear thinking starts with the here and now

"If I expect to be doing tomorrow what I am doing today, then that will lead to failure," avers Paul Benham. "There is not a day when I come to work that I am not expecting some change, whether it's looking at a particular process or the way we assess risk."

The managing director of Benham Precision Engineering isn't concerned that he is focusing a lot of his time on the here-and-now. "I would say 95% of my time is spent looking at today, because we have to deliver 'today' if the company is to have a future," he points out. "The constraint on any business of our size is resource to free up time for strategic thinking. A company needs to be clear about whether it invests against a programme or order book or invests against opportunity. Without question to invest against a known level of business is the best way, but we are entering an age, if we are not there already, when constant re-investment is going to be the norm anyway."

When he joined the family firm, then called DA Benham Engineering, some thirty years ago, it was a traditional engineering sub-contracting business which was making inroads into the electronics sector where companies such as Racal Recorders (their "backbone" for years) were beginning to outsource.

The acquisition of a small to medium-batch, medium complexity engineering company was made in 1995, partly to make further progress into the aerospace sector as well as to gain extra capacity plus the valuable door-opening approvals that they possessed. "It was a bit of an adventure for us," recalls Paul Benham. "It enabled us to cut our teeth."

Three years later Benham acquired a site to build what is now a 21,000sqft purpose-built factory, bringing two separate production facilities under one roof; sixty staff operate a twenty-four-hour shift system. To add to their resource, Benham Manufacturing have recently taken a majority shareholding in a CNC sub-contractor which was a supplier to them.

Over the years the company has migrated into aerospace. This wasn't a drift into another sector but planned. Today the company is a tier one supplier. "We had taken on good engineers and invested in multi-processing machine tools which meant we were capable of doing more complex work," explains Paul Benham. "We had by then identified technology as the way of differentiating ourselves from our peers, the way to be more competitive and to optimise margin. It seemed a natural progression."

What maybe isn't such a natural progression is how Benham Manufacturing really discovered a passion for technology. "We have got ideas where it will take engineering," explains Paul Benham. "At the moment the engineer creates the solution, and the computer produces the programme to achieve it. Technology will enable an engineer to put in the parameters, the specific features required, and the software will create the solution. I cannot believe we're that many years from androids, which will move from one machine to another. There will be de-skilling as a result, but one of the biggest issues in manufacturing is having processes which require human intervention and finding the people who can do it."

Additive manufacturing - the media tend to call it 3D printing - is on the radar. "We understand what it will look like in the future," says Paul Benham. "There are parts of aircraft which are already made by that process."

"Technology," he explains, "means our core strategy is about getting opportunities to become the integrator, the assembler, enabling the customer to diminish their supply chain, about us being the supplier of choice," Paul Benham explains.

Preferable alternative to fast-track growth

Given the chance, and that doesn't always present itself, Mike West would say that steady growth is preferable to fast track. The latter can be a euphemism for too much, too soon, and simply coping with demand can result in the company taking its eye off the ball. And the managing director of data centre design and build specialist Keysource should know, as he presided over an increase in turnover from £13million turnover in 2012 to £30million the following year. It then fell back to £24million, and since then has been more constant.

His advice? "If you have a game-changing opportunity, be aware of the impact it's likely to have on the business. Much of our early growth was due to winning several big contracts from a single large customer. That was a matter of concern from an eggs-in-one-basket perspective. Eighty per cent of the workforce was involved with that one customer and we lived hand to mouth, waiting for the next contract to come along. I swore we would never find ourselves in that position again."

The dilemma, as he points out, is that few companies would want to turn away work. "Of course you don't," says West candidly, "so you have to sit down and really think about what it will mean to the business." He's hoping for much more measured progress now. "Growing is absolutely what we have to do but the challenge is doing it in a sensible, profitable fashion."

The business used to work mainly as a subcontractor but made the strategic decision a few years ago to work directly for the end user. A good call. "There are armies of people at construction companies who are rewarded for ensuring they pay sub-contractors as little as possible," explains West. "We've taken on work then six months later they're deducting 30% for some minor issue that hasn't been discussed before. So I would never want to work for them again, even though that's probably limited our topline growth." He makes the point because subcontracting is "all about money," resulting in Keysource being unable to charge for much of the value it added. "We were giving a raft of value away for free," he says.

Keysource are now one of the larger

players in the relatively niche market of data centres, one which is dominated by a few major players who include the provision as part of a broader offering to major clients. West says his motivation as a business owner is "to see what we're managing to achieve from an engineering point of view. It's very satisfying to win awards for it in competition with the likes of an IBM."

He'd like to innovate with every job, especially with energy, which data centres consume copiously, but he makes the point that it can't be at the expense of margin and a company has to be realistic about what customers want. "Not everyone can afford - or requires - a top of the range product; sometimes customers just need something that's functional," he says.

What West wants to do is shift the project-based element of the company's work, which accounts for about half of revenue, to activities that lead to recurring revenue. So plans for growth are led by a new focus on a professional services offering, notably consultancy and design work on bigger projects.

"We're good at building relationships and in a sub-contractual environment you don't really get the chance to do that," he explains. "Shifting into professional services and being a trusted adviser will make our niche engineering company much more interesting."

Not that West is looking for an exit just yet. "It's about having the business in the right position to be able to identify and take advantage of the right opportunity at the right time," he explains. He's not sure though if he could cope with having outside investors as majority shareholders. "The thought of working for someone else is quite terrifying," he says. "Entrepreneurialism is a key part of running a smaller business; I don't really understand corporate life."

In the meantime, West has been getting the right management team in place, which in any case would be "absolutely key" to any sale. He's been employing senior people who are regarded as experts in their fields. West concedes that having been with the company for twenty-five years he felt he needed to bring in new people, if only to refresh the business.

That has led to a certain loss of personal control, which he is comfortable with, saying he wants to be less hands on. And it's come at some cost. "These are people who could earn substantially more in a corporate environment," says West, who lured his senior hires in with share options. "But with hindsight this is what I should have done earlier," he says.

"Tenacity, hard work, generally being smart, are all important, but reluctance to change is unhealthy and can limit a business. I think sometimes that owner-managers don't do the right thing for their business out of fear. There's nothing wrong with having a lifestyle business when the owners get to whatever level and then don't want to take any risks. But if you don't or can't change because of that, you start to fear what the future looks like."

International outlook a real step change

In just over a decade Matt Dobbs has gone from being a sometime practising vet, with his hands, James Herriot style, as he puts it, "up a cow's bottom," to running a £40million turnover company. And as if that was not a big enough step change, he now wants to take the business international, which could lead to a turnover of £400million. And he's been on the hunt for the right investors to help him do it.

Dobbs joined Westpoint Veterinary Group in 2003, joining founder Rob Drysdale (they'd met at university) as the fifth vet in the three-year-old practice. Their point of difference was to focus on livestock, and specifically milk and meat producing animals.

Matt Dobbs, Westpoint Veterinary Group

It was unusual for a practice to specialise only in farm animals, which helped them to attract new farm clients from traditional practices that were increasingly specialising in domestic animals.

Dobbs had been working in teaching and research and his interest in those fields led to the creation of an in-house R&D team and in-house training facility, which have proved important elements of the business. "Being able to generate our own research helps our vets to make the right evidence-based decisions, he says. "The more animals we treat, the more evidence we generate, and that creates commercial advantage as we attract more customers by offering that better service."

In 2005 came another step change, starting an in-house pharmacy, with buying and selling medicine being seen as a good way to generate more cash. That proved so successful that a third of revenue now comes from an external internet-based offering, farmacy.co.uk, half from the veterinary practice itself and the rest from R&D, training and consultancy.

Another point of difference has been to encourage a proactive attitude to animal health, says Dobbs. "Just as the best businesses have a business plan and strategy, so the best farms have a planned and strategic approach to the care of their animals.

"It's a holistic approach, with the research element providing an evidence-based approach. We can prove that keeping their animals healthy is better both for the animals and for the farmers' pockets. We always believed in proactive and preventative healthcare and that's come on at a pace; to use a human analogy, ten years ago few over-65s got a flu jab and now most do.

"Most people think of vets as James Herriots, driving round the Dales and delivering calves in a barn, but more than 90% of the work we do is proactive: vaccination programmes, reducing mastitis, even helping design buildings which will reduce respiratory problems in pigs. If we encourage farmers to eradicate diseases they will become more efficient and can ride out the volatility, the peaks and troughs, of agriculture."

The decision was taken early on to employ professional senior managers, not necessarily with any veterinary experience; the CFO has come from a cinema chain, and members of the marketing, HR, IT teams, even operations, have come from a commercial environment. "In a way," says Dobbs, "we put the cart before the horse by taking them on in-house earlier than most businesses would have done."

But the idea was to free the vets up from the admin work that could otherwise bog them down, he explains. "Traditionally they were being vets during the day and business people in the evening. But vets are better at being vets than at managing businesses so this allows them to carry on with what they are good at - or give more entrepreneurial vets the opportunity to venture into management without being bogged down by admin."

Some of the head office functions are now being relocated to York and the laboratories are being rationalised and relocated to Edinburgh, where links with the vet school allow easy access to quality post-grad researchers. The board, pharmacy, marketing and business development will stay in the south-east.

Various acquisitions have contributed to rapid growth. Westpoint have bought not only veterinary practices, some of which have allowed it to expand into new areas of pigs, poultry and equine (as opposed to a previous focus on cattle) but also laboratories, IT systems and consultancies.

From a first year turnover of £430,000 Westpoint now have revenues of £40million, as well as 330 people - half are vets - five labs, twenty-four farm animal practices, eight dedicated poultry practices and three pig practices.

This growth has been partly influenced by various trends which have given the animal healthcare industry greater importance and opportunities. Such as the One Health concept, a worldwide strategy for expanding interdisciplinary collaborations and communications in all aspects of health care for humans, animals and the environment - for example, research into diseases like avian flu and rabies.

Another driver is what Dobbs calls the "protein story," the hugely increasing demand for milk and meat products as the world population grows. "The UK's expertise in animal health is second to none. I'm really interested in how we can use it to help the world feed itself," he maintains.

And from an environmental perspective, livestock is one of the biggest single influences on the environment, says Dobbs. "Methane is a large contributor to global warming and our work with farm animals can have a positive impact on greenhouse gases. So our industry has a bigger part to play than might be obvious."

Now that Westpoint have a national presence (the branches are as far afield as Cornwall and Scotland) the company wants an international one, taking advantage of opportunities presented by the "fragmented" animal health market in many countries. There's already a branch in Estonia, for example, and the business has done consultancy in dozens of foreign countries in the past year alone.

The US could also present opportunities: "The UK is so advanced that we can reverse engineer what we do to the US, which is generally seen as being a mature market," says Dobbs. One of the reasons he wants to expand overseas is because Westpoint now have such a big share of the UK market, treating 22% of the UK poultry population and a third of the pig population, for example. "We could buy more pig practices but we want market leadership, not market domination – competition's a good thing as it also drives innovation," says Dobbs.

The directors initially funded growth themselves, but as well as bank loans the business has had an outside investor for a couple of years since deciding it needed more capital for growth. Private equity firm August owns some 70% of the business (the rest is owned by existing and previous partners and the management team).

And Dobbs has been looking at obtaining more finance to fund overseas expansion. "There is a lot of interest from potential investors as animal health is seen as being higher margin and less competitive a sector than human health, while the growing demand for milk and meat has meant a consistent growth in demand for farm vet services."

A trade sale of some kind could be an option, he adds. "A lot of big pharmaceutical companies want exposure to animal health – there's a lot of integration of animal healthcare into related areas like human healthcare and it won't be long until one of them will want to acquire a business like Westpoint."

Would Dobbs see himself exiting as part of this process? "My strengths are entrepreneurialism and passion, and people say I'm a good salesman, which doesn't necessarily mean I am the right person to take this business to the next stage," he suggests. "That said though, I can learn the different skill-set I would need to do it and I believe I have the necessary background to continue to lead the business.

"The important thing for the company is to have the right investors who understand both the opportunities and the risks in this particular sector. And there are risks. Market volatility in agricultural prices means that while long-term growth prospects are good, there will be short term blips. Bad weather affects crops, which in turn affects animal feed prices, and short-sighted, reactive farmers will look at their vets as a cost they can cut. Our challenge is to educate them in the vagaries of the industry, that it's actually OK to have a poor month now and again as long as the general trend is in the right direction."

The veterinary sector is changing rapidly, explains Dobbs. Rather like opticians and pharmacies, the trend has been towards high street independents being swallowed up by big chains. About a quarter of vet practices are now owned by a handful of companies (most of the independents look after domestic animals), with Westpoint among the few farm animal specialists.

One of its challenges is that Westpoint don't have a captive local clientele which a traditional mixed practice can rely on. "In our sector farmers can use a practice that's half an hour away or indeed anywhere in the country as farm vets often visit only occasionally or on a consultancy basis," explains Dobbs.

Another challenge is for a growing company is to get to a size where it is big and diverse enough to offer a career path so it can recruit and retain the best talent. And with the growing "feminisation" of the industry (the vast majority of young vets are now women), Dobbs says the current generation of vets has different expectations. "In a traditional practice a vet has to wait for the senior partner to fall off their perch and then they buy the business, but vets today aren't necessarily interested in ownership – they're excited by career progression. We're a bit unique in that we can offer them a career path, the chance to work in R&D, or overseas or in consultancy."

With this in mind there's an in-house training programme, from a specialist intern programme through to further academic qualifications in fields such as mastitis, reproduction, youngstock health, foot care and farm management. That's helped the business in a sector where not enough vets are being trained to meet demand. "We'd never have grown at the rate we have without our training programmes," says Dobbs.

"Our business is all about people. In a traditional practice you can take everyone down the pub or share a bag of doughnuts in the office, so one of the issues with a national business is how to communicate with the team. Our vets in Dumfries, for example, might not see anyone else from the company for months. How do we get them involved, get them learning from each other and engaged with professional development?"

Technology helps with that – for example, all vets can download real-time data from the database and access a learning management system similar to that used in universities. There are also summits every six months where staff get together in the same place to get updates on strategy.

And the significance of the company's name? Dobbs smiles. "When the founder left the practice he had been working at to start up on his own, he was subject to a restrictive covenant preventing him from setting up in competition within fifteen miles. The western-most point of his new premises was exactly 15.3 miles away."

Massive enthusiasm with sense of purpose

"Effective owner managers will have massive enthusiasm for the business, a clear vision of where it is going, and also where they want to be," says Charles Whelan, partner at HW Corporate Finance. "And they are very specific about that direction, regardless of whether they actually have an exit in mind. They've got a real sense of purpose; they're not drifters; they're not tired.

"There are times when I have met people who want to sell because they've had enough; fatigue has set in. And that's an observation, absolutely not a criticism. But the best time to consider what to do next is when the business - and the owner- manager - is up, not down."

According to Richard Hall (partner, HW Corporate Finance), there can be a reason why that doesn't always happen. "Most owners are still more focused on the day job rather than strategy," he suggests. "Symptoms include the owner-manager having too much in their head rather than being systems based, that there isn't really a second level management team in place, or that the managers in question have been appointed to provide the owner-manager with cover and support but may not be capable or willing to take over the business and take that next step up to run it.

"Traditionally, owner-managers probably didn't give much thought to an exit, until the opportunity was thrust upon them or they reached a certain age. But a significant proportion of younger owner managers tend to go into business with a slightly different outlook. In much the same way as the new generation of employee tends not to be looking for a job for life, they don't necessarily see themselves doing the same thing until their retirement. Their mind-set is more likely to be that they will take their business to a certain level and then look elsewhere for other opportunities."

The defining virtue is strategy. "Those who have set out where they want to be and how they are going to get there will have a clearer focus and sense of purpose," explains Whelan. "They will be making decisions based on that strategy. There's always the possibility they will still make some mistakes along the way, but strategy enables a company to manage both planned growth and left-field opportunities."

And he doesn't think that for owner-managers, 'exit', euphemistically speaking, has ever been a four-letter word per se. "I don't believe that selling their business is a taboo subject for the owner-manager," he says. "No matter how passionate they are about the business, it isn't an extension of themselves, it is a separate entity."

Reference

With a team of twenty specialists, led by eight partners, HW Corporate Finance focus on the owner-managed business and the mid market, with most transactions in the range of £1million to £100million.Over the last nine years the team has advised on deals totalling more than £2billion. www.hwcf.co.uk

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