PLÉSONA
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Should we be boot-strappers?

Many who go into business have dreams of conquering the world, having their brand known by the whole planet and having their picture in magazines and newspapers. For almost all of those businesses that have reached that pinnacle they have required several rounds of investment that have allowed them to invest to succeed but have also changed the direction of their businesses. For example, in a recent conversation with a potential investor for a client, they were not interested in a particular web-based business unless they had a phone app. But does that mean that this would be a good idea for the particular business involved? Maybe, maybe not. Investors can bring a wealth of knowledge and experience to a start-up business but they can also destroy a business concept as the founders try to please the investors. For those that choose not to have outside investment, they are the boot-strappers. Most businesses are boot-strapping at the start before they receive outside investment and rely on personal investment and loans to build and grow their businesses. This probably will have the disadvantage that the rate of growth of the business will be slower without the additional cash to hire people, develop products, buy machinery and tools and have a blow-out marketing budget. But it does mean that the founders stay firmly in control and have the ability to steer their business vision themselves. Some of the most successful boot-strappers in the world are the 3.5 million Mittelstands in Germany. These are usually family-owned businesses that have become multi-generational and focusing very closely on their core concept. The most successful of these are often engineering businesses that have focused on a very small niche but are world renowned specialists in that niche. A few have even become multi-billion Euro companies. These companies have “stuck to their knitting”, to use an American phrase and have been very successful at doing so. They have not been distracted by the desires and ambitions of outside investors who may not fully buy into the core concept of a business. They are also famous for being highly averse to debt. This has meant that, although conservative in approach, these businesses are capable of weathering the worst of economic storms. This is not to say that outside investment is a bad thing. There are many situations where it is exactly the right thing. But there are different paths that a business may take to be successful.

Payment of overdue invoices

Late payment of invoices is a big problem for many small businesses and there are two main causes. The first and most obvious is the fact that many customers, both large and small, do not pay on time. Sometimes that is because they are playing games and sometimes it is because they are very badly organised. In both cases, you should never be afraid to ask for an invoice to be paid. And there is never any need to be aggressive in your approach to collecting money. If you have upheld your part of the bargain, you are fully entitled to be paid. The good news is that you can threaten to charge interest on overdue debt and that can often be an added incentive for such customers to pay you. However, there are many cases where smaller companies don't get their invoices paid and it is entirely their own fault. Many smaller companies do not ask some very basic questions before issuing an invoice. Did you ask about who needs to authorise the invoice? Did you ask about who physically makes the payment and how it is done? Did you ask whether a purchase order was required or not? Many smaller businesses do not understand the process a larger company will go through to set you up as a supplier and how they will process your invoice. And many smaller companies get very frustrated when their invoice is not paid because they didn't ask these simple questions. It is worth spending an extra few minutes with your customer to understand these points. A stitch in time will save nine.

The Inflation Lag

This is a particularly tricky time for businesses setting prices for the next year. We have lived through a very long period when most prices have hardly changed. It follows that many pricing policies haven't changed much either. But that is now changing. Because consumer price and producer price inflation is carrying on much longer than anyone expected, the natural response is to raise prices now to cover the extra input costs. Rise your prices too soon and you risk losing out to a competitor that did not raise prices as quickly. Being too slow to increase prices incurs the risk of trading losses. There is no magic formula to getting it right but one industry that has become expert in rising, and falling, prices are the oil companies and fuel retailers. They learned some very hard lessons in the 1970s when fuel prices went through the roof and drove an inflationary spiral that influenced just about everybody. Since they have learned the simple trick of raising prices fast and lowering prices more slowly. This way they never lose out and might even make a profit on price changes. In the coming months, the best thing to do is to keep a handle on supplier price increases and how your competitors react.

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