

Introduction

Welcome to Mercer & Hole Business. In my role as an Audit and Business Advisory Partner, I work with clients at all stages of their business life cycle. There are several key stages a business will go through, from start-up phase through to the sale of a business and life beyond. All of these stages can be both exciting and, at times, daunting for business owners.

In this edition, we explore the challenges that business owners face at each stage of their journey. Our team share their professional insight and their first-hand experience of working with SMEs to advise on the common themes they encounter.

Starting off with business start-ups, Helen Cain, Audit and Business Advisory Partner, looks at what needs to be thought about in addition to the big idea. Key considerations in Helen's article include funding, building a team, complying with legislation and managing the financial functions of your business.

Jolene Upshall, Audit and Business Advisory Director, looks at businesses which have matured and identifies some of the key milestones and potential turning points in the life of a developing business. Being proactive with decisions and taking control of the business's destiny at this stage, whilst at the same time meeting your aims and aspirations, is the key message in Jolene's article.

Our Managing Partner, Paul Maberly, provides his insight into managing change within an established business, using Mercer & Hole as his case study! His article demonstrates that a focus on the business's

values provides a comforting constant amidst the pace of change from disruptive technologies.

Planning your exit strategy and getting ready to sell your business is a pinnacle point for many business owners. Mike Orton, Corporate Finance Director, shares practical information, as well as his own experience, to help you prepare for a sale and realise the true potential value of your business.

Running a business can be all consuming, even when retirement might be on the horizon. Michael Lapham, Chartered Financial Planner, recognises the importance of taking time to look at how best to manage this life shift. Once again, planning is the key to achieving your own personal and business objectives.

I hope you enjoy your journey at whatever stage your business is at. It is one in which we are keen to join you, whichever stage you find yourself at in your business life cycle. Please do not hesitate to get in touch with me, my fellow authors or one of our team here at Mercer & Hole if you would like the benefit of our advice now or at any point in the future.

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Startups – getting it right from the beginning

There are a number of key things you need to consider when starting up a business: what is the legal form of your business, how will you fund it, what reporting requirements need to be considered and, if needed, how will you attract and reward employees?

At the outset of any new business, the owner or owners should have a clear understanding of where the business aims to be at some future date not too far ahead. Performance targets are crucial to measuring the success of a business. Examples of these may simply be turnover, profits and/or market share. Financial forecasts should be prepared for a fixed period. These are often outlined within the business plan, the format and details of which will be tailored to the needs and size of the business.

Appreciating this at the beginning of any new business venture, whatever its potential scale, will facilitate and determine many decisions which need to be made. One should ensure that decisions made at this point will allow the business to establish a solid foundation from which it can not only survive, but also develop into a profitable and financially secure entity.

The aims here are just to set out some brief points for consideration by the shareholders and directors, to promote a better understanding of the commercial risks, and to assist in identifying any weaker areas or gaps where professional advice may be key to the success of the business.

Legal structure & considerations

The legal structure of your business is one of the most important decisions for a startup, as it can determine the amount of liability you have.

Although other legal forms such as sole traders, partnerships and limited liability partnerships can be equally valid in certain circumstances, this article focuses on a limited company as this is often the chosen legal form for a startup business.

Thought should be given to the share structure, for example the number of shares to issue and also potentially issuing different classes of shares with possibly different voting and dividend rights.

Additionally, shareholder agreements are an important governance document setting out to shareholders their rights and obligations during ownership. If new shareholders are introduced, it is vital that the existing shareholders have an understanding of what will happen to the share structure as a result. As well as how this impacts on the control of the business and any anticipated financial rewards. Equally important is what happens to the shares of those that leave for whatever reason and how this might alter the ownership ratios.

Finance

The startup needs sufficient funds to meet its obligations, and to allow growth and expansion. Other than traditional debt finance it may be possible to attract new investors via the Enterprise Investment Scheme (EIS) or the Seed Enterprise Investment Scheme (SEIS). These share schemes are popular with a number of our clients due to the tax reliefs available.

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...the business should establish a solid foundation.”

Reporting requirements: Points to consider

Understanding and complying with all reporting obligations is essential to avoid penalties from either HMRC or Companies House.

- Taxes to consider include VAT, PAYE and corporation tax. Consider the stage at which an entity should register for VAT, as it may be worth registering before expecting to meet the VAT threshold.
- Is the entity undertaking any research or development? If so a generous tax relief may be available.
- Discussing these issues with our clients, allows us to provide timely and relevant advice ensuring our clients meet their obligations and obtain reliefs where available. Additionally, advising clients of any tax due and the payment dates allows them to manage and monitor cash flow.

The nature and size of the company will determine the format of the statutory accounts and whether an audit is required. Accurate and up to date company financial records are essential to provide important management information for decision making. We often assist clients in choosing the right software and suggest relevant reports that would be useful to the management team and third parties as needed.

Building a team

Retaining the right employees, and finding ways to motivate and reward them, is key to the success of businesses. In some startups the remuneration package may include a mixture of salary, benefits and equity. Share options are often popular with startup enterprises because they are a way to engage the employees in the longer term future of the business.

Being able to understand the overall tax costs for the company and the individual allows each to find the blend that rewards and motivates talent.

The above are just some of the issues that may arise in the early days of a business.

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Is your business undertaking any research or development?”

If you are starting a business and require advice on any of the points raised, please get in touch.

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Developing your business and easing those growing pains

Transitioning a business from its launch phase into a sustainable period of growth is an area where we can offer full support and help avoid insufferable growing pains.

A business plan incorporating forecasts and careful cost management should enable growth. An impartial review to ensure the growth is manageable and profitable, rather than damaging, is useful to the business owner at this stage. Overtrading or unmanaged growth can put pressure on staff and operating systems. This can result in poor, reactive business decisions being made that do not benefit the organisation in the long run.

Systems

Operating systems can become a patchwork of system add-ons that are not appropriately integrated. The result can be disordered, ineffective and frustrating. This is often compounded by an overreliance on staff who are then needed, from a knowledge and resource point of view, to hold the fragmented pieces together. We have seen these growing pains before in respect to financial operating systems. We can review existing systems to identify any internal control deficiencies and areas in which improvements can be made, and then provide advice on any new systems or offer an outsourced finance function.

People

People issues can become challenging where there is significant business growth. The change can be unsettling and certain personality types may struggle to take the growth positively, being overprotective of their roles, or resistant to embracing new working practices.

Growth in staff numbers can also bring payroll compliance and management challenges; here we can offer outsourced payroll services, or tax planning and identification of reward and staff benefit schemes, including share options that help ensure staff are fully invested and committed to the business.

Opportunities

As well as helping to ease internal growing pains, at the core of our services we offer external investment opportunities, sales and acquisition advice, and appropriate tax planning. On page 6, this is explained in more detail by my colleague, Corporate Finance Director, Mike Orton. We can advise on any growth that involves significant external, structural ownership or funding changes with tax planning for investors and business owners alike inbuilt.

Visibility of a business's performance, recognition of the crucial KPIs and monitoring of them accordingly, whilst having a reactive attitude to emerging changes can be stressful. The insight of a business advisor can be invaluable in ensuring a confident, controlled step movement in the life cycle. At Mercer & Hole we have advisors on hand to support all next-step strategies; be they tax planning for exit, succession planning for next generation business owners or seeking external buyers or acquisition opportunities.

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A collaborative approach to managing technological changes

Mercer & Hole has been around for a long time, since 1905 in fact. I like to think of myself as a custodian, guiding a progressive business with a collaborative approach with my partners and teams. Here is my account of how we are growing and developing through an exciting time in our history.

My predecessors weathered two World Wars so I am not going to dwell on the challenges of Brexit but more so recognise that this is potentially a time of great change for the accounting profession (and others too) with the advances that are taking place in technology.

This pace of change is exciting but alongside it is the comfort of many constants. Fundamentally, much of that comes from knowing who you are and what you stand for. In our case, we can whittle that down to people, service and community.

I am hugely excited about the possibilities that lay before us. For example, cloud-based accounting has already made a huge impact on the service we are able to offer our clients. We have realised we can offer our clients a better and more convenient and efficient service by using it. Money and time can be saved allowing business owners to focus on taking their businesses forward. The information exported though means little without the professional experience and knowledge of our team to decipher it and demonstrate its commercial use and advantage.

There have been many articles dedicated to the impact of AI on firms such as ourselves. Our Audit and Business

Advisory team are trialling AI software and looking at the pros and cons of using available technology. We are working with the software developers to identify where there are shortfalls in current programmes and how the software needs to change to support us in practice. The focus is on improving the quality of delivery of the audit service to our clients, ensuring a robust and viable solution, utilising the latest technology available to improve efficiencies and reduce risk.

Both of these examples demonstrate that people and service are our drivers and technology is the tool.

I also mentioned the value we place on community; the close community in which we work, the professional community we are proud to be a part of and the local communities in which we operate. These communities guide and shape us.

Like any other business, we take advice, we plan, we celebrate our successes and we thrive on doing it our way. There is always going to be change but there is also a great deal to be gained in reflection, and in recognising where you stand in the here and now.

To talk about where you are now, where you want to be and the challenges you face in making that progression, please get in touch.

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Preparing to sell your business and realising its value

If the business owner feels the company is almost at its peak, and/or it needs investment to move it forward, then it may be that a decision is made to exit the entity.

All business owners should consider their exit strategy in order to realise a company's true value. Preparing a business for sale is one of the most important periods in a business's life cycle. The time spent on planning, thought and effort will have a significant impact on the value realised. It is important not to rush the process and to take the necessary steps in order to present the business in the most appealing way. This could take several months but it is crucial in ensuring the achievement of maximum value for what could be your most valuable asset.

What needs to be considered to get my business ready for sale?

All businesses are different but some typical areas to focus on ahead of a sale are:

- What is the underlying profitability of the business?
- Does property need to be extracted from the company?
- Are employment contracts in place and up to date?
- Can customer contracts be extended?
- What is the quality of the financial information?
- Are financial forecasts prepared and appropriate?

What advice should I seek prior to selling my business?

Before embarking on a sale process or engaging with perspective buyers, I would always recommend engaging with experienced professionals, including corporate finance, tax and legal advisors who can:

- review the business from the perspective of a buyer and how they are likely to value it
- propose an appropriate deal structure
- identify the strengths and weaknesses of the business in order to position them correctly
- identify and resolve any issues in advance to protect value

- ensure that the information a buyer will want to review during their due diligence phase is prepared appropriately
- advise on any tax issues which might impact on the deal or cash realised by the sellers

The case for planning and preparation

Through a recent transaction experience, we found it very challenging to achieve the price expectations and real value of shares for sellers who had not planned for their business exit.

In short, the sellers were unexpectedly approached and many of the issues which arose during the course of the transaction could have been mitigated if the exit had been more considered. The sellers in this case should not have rushed into this process. Although the offer was good, they could have potentially sold at a higher price.

Having the right systems and people in the growth stage is key in the planning. If you would like to understand more about how we can help you prepare and ultimately sell your business please do get in touch.

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Retirement - what are the considerations?

In my role as a financial planner I meet clients with all different sets of circumstances and plan for when and how they intend to retire.

However, when it comes to those who are running a business, two particular scenarios are often prevalent. These are:

1. They are too busy running the business to give their retirement adequate consideration
2. They see their business as their pension.

There is little that can be said about the first of these scenarios, other than to highlight the importance of setting aside the time that this really warrants. Therefore, I will concentrate on the second point.

Whilst I see some merit in this approach, my concerns around it are that all too often too little thought has gone into it. What will happen to the business upon their exit and how will they extract capital and/or income?

For example, I recently met two partners, both in their mid-60s and running a profitable professional services business which they have built up over the past 30 years. Both would love to retire in the near future. They could sell it but the problem is, without them the business is worth a fraction of the value they believe it is worth because they are critical to the business.

In the past they have tried recruiting staff with the viewpoint that they will take the business over in the future, however, that has never worked out.

As a result, they are now faced with the issue of having too much of their wealth tied up in an asset which they cannot afford to walk away from. Despite their success, they cannot realise their own personal objectives.

The main message here is to have a plan and, ideally, one which does not rely on one eventuality, such as the eventual sale of the business to a yet unknown party. Your plan should include systems and processes which enable the business to be run independently of the principals-in-charge. In my opinion diversifying your wealth via different arrangements is key. In addition to the proceeds of a business, income can be supplied from a variety of sources, so it may be worth considering re-directing some of your profits to pensions, ISAs, or property, to name just a few of the options available.

“
...diversifying your wealth via different arrangements is key.”

If you would like to discuss your plans for exit and retirement in further detail please contact me.

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TAKE 5

with Tom Dinwiddy



Take a coffee break getting to know our Business Advisory and Outsourcing Director Tom Dinwiddy. Tom's knowledge of the fast moving tech and outsourcing market means he is able to adapt to clients' needs and give the right advice at the right time.



What three words describe you the best?

Pragmatic, enthusiastic and committed.

How do your colleagues inspire you?

The strong culture through the firm clearly drives the shared passion and commitment that our colleagues have, to deliver the best results for our clients. There is a unique mix of professionalism alongside an open and very welcoming environment across all of our four offices.

What gives you a sense of achievement?

I enjoy seeing a plan come to life and result in a well-executed solution, but what gives me the greatest sense of achievement is building relationships and developing a team along the way.

What motivates you?

Working alongside great people whilst helping to navigate complicated situations and delivering practical solutions to problems. I also enjoy the varied challenges and opportunities that arise working with such an interesting and diverse client base.

What are your interests outside of the office?

I enjoy sport, particularly supporting Arsenal and I'm a keen cricket fan. I also love to travel and visit new places with my young family.

If you would like to speak to Tom, please get in touch:

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