



## Starting out

In the first of a series of three articles on the lifecycle of a practice, Kato's **Phil Shohet** and **Andrew Jenner** look at establishing a firm



**The ultimate goal for many young accountants is to set up their own practice, but is it wise to consider such a major career move at a time of economic uncertainty? The answer, of course, is that there is never a good or bad time. The success of the venture is far more dependent on the skills and competence of the individual: not necessarily their technical accountancy skills, but their business planning and development ability.**

At a time when many feel their job security is under pressure, their prospects of advancement are poor, or simply that they want more independence than they can achieve as a wage slave in practice or industry, the prospects of owning their own business can be very attractive.

However, experience shows that the dream of gaining independence and a higher income can easily turn into a nightmare unless the entire enterprise is meticulously researched, planned and addressed in a businesslike manner.

### Stands to reason

The desire to set up a practice based on an emotive reaction to a change in circumstances or a desire for faster advancement is fine, but it must be supported by a great deal of research and hard work if it is to be successful.

The practical approach for anyone wanting to establish a firm must include:

- \* A definition of the services that are to be provided;
- \* The production of a business and marketing plan based on an identified philosophy;
- \* Anticipation of the financial requirements of the business; and
- \* A detailed analysis of personal and professional aims and objectives.

Every prospective practitioner must think about and recognise their personal strengths and weaknesses. Experience is a great teacher, but although past experiences may appear to be sufficient for the chosen route, new ventures often fail because practitioners fail to identify required improvements in their personal and management skills.

Prospective practitioners must also be realistic in their aspirations. The person who most enjoys doing audits for large companies is unlikely to attract such work until they have built a considerable practice, which may be many years in the future.

As well as business planning, vision and, of course, the necessary technical skills, starting a business requires an enormous amount of time and effort. Total personal involvement – almost to the exclusion of all else – is essential.

No assessment of whether to set up in practice can ignore personal financial requirements. A realistic examination must be made of current living standards and how they may vary in the immediate future because of the start-up investment.

### Know your needs

The prospective practitioner will quickly realise that what they think they require in terms of office and facilities is different from what they can actually afford to spend. The key is not to go to extremes.

Initially, it might be appropriate to work from home or in a managed office suite, where basic support services can be provided on an ad-hoc basis. It might also be possible to find other people (not necessarily from the same profession) willing to share.

Underestimating the cost of starting up a practice can be the fastest route to disaster. This is even more important where partners are involved. Their support will be vital, so they must be aware of the realities of the situation, particularly if there are children involved.

The checklist opposite does not cover every aspect of setting up a practice, but is the bare minimum of questions that need to be answered in

**1 BUSINESS ORIENTATION**

Do you have a businesslike/entrepreneurial approach?

YES

NO

Are you sure there is sufficient demand for further accountancy services in your locality?

Do you have appropriate technical skills?

Do you have appropriate practice management skills (for example, staff issues, billing, marketing)?

Can you motivate and lead staff?

Do you have marketing and business development ability?

**2 PERSONAL ORIENTATION**

Are your personal affairs in order?

Have you got the support of your family?

Have you considered the long hours required and the restrictions imposed on your personal life?

Do you understand the risk of failure?

**3 PRACTICE PLANNING**

Have you prepared a business plan and budget you believe is workable and achievable?

Have you established a mission statement?

Does the budget account for all initial expenditure, including one-off first-year costs?

Have you made arrangements for financing the practice?

Have you arranged your financial, administration and office organisation?

Does the budget protect your personal drawing needs?

Have you fully considered your office location and equipment requirements?

Have you prepared a practice development plan?

Do you have an initial client base from which to generate fees?

Do you intend to restrict the variety of services you offer and the type of clients you wish to represent?

**4 START-UP FORMATION**

Do you have a practising certificate?

Are you licensed to act in some or all of the reserved areas of audit, financial services or insolvency?

Have you arranged for a professional indemnity quotation?

**5 PRACTICE SUPPORT**

Have you arranged for locum support in the event of incapacity, illness or other disability?

Are you prepared to obtain advice and support from your professional body or another practitioner?

**6 OTHER OPPORTUNITIES**

Have you fully considered the alternatives available which may be more rewarding and financially beneficial than setting up in practice?

**MOST PRACTITIONERS SETTING UP IN BUSINESS FOR THE FIRST TIME ARE HAPPY TO TAKE ON ANY BUSINESS THAT WALKS THROUGH THE DOOR, AND INDEED THIS COULD MEAN THE DIFFERENCE BETWEEN SUCCESS AND FAILURE IN THE FIRST CRUCIAL YEARS. HOWEVER, IT IS IMPORTANT TO CONSIDER THE EFFECT THIS WILL HAVE ON THE PRACTICE DEVELOPMENT PLAN**

the affirmative before taking the plunge into business ownership. The checklist provides a guide to the practical aspects of setting up in business, but what about the practising side? What is the market for professional services in the area where the office is to be located, and does this coincide with the skills that are on offer? Is there a large pool of potential clients on which to draw, or are there several competing firms all fishing from a small pond? For a new firm to prosper it needs to have an edge over the competition: a unique selling point that will not only attract new business but will help to raise the profile of the business locally.

#### Taking care of business

Most practitioners setting up in business for the first time are happy to take on any business that walks through the door, and indeed this could mean the difference between success and failure in the first crucial years. However, it is important to consider the effect this will have on the practice development plan. In most cases, this type of unsolicited business will be compliance or accounts preparation work. While this may pay the bills, practitioners who envisaged using hard-won skills to offer specialist services may find themselves so bogged down with 'grunt work' they are unable to devote time to growing the business in the right direction.

The ideal situation is to have one or two clients already in the bag before setting up in practice and, thanks to



the somewhat lax approach some firms have towards contracts of employment for senior staff, this is quite often possible. However aware they are of the possibility of losing clients to other firms, they seem blind to the possibility of having them snatched from under their noses by their own staff. And who is better placed to identify disgruntled or disaffected clients who may be ripe for the picking?

Even if it is possible to acquire a couple of clients as a platform from which to launch the practice, every practitioner must have the necessary skills to promote and market the business if it is to grow.

The most cost-effective way of generating new business is to obtain referrals from existing clients. Networking is also vital, whether it be with potential clients, other professional service providers or sources of work. For a start-up practice with only a small marketing budget, it is important to make every penny count.

For those starting from scratch without the cushion of existing clients, it might be worth considering buying a block of fees (from a retiring practitioner, for example). Great attention to due diligence is key to success here. The deal should be structured so that payment is made over a period of time and the changeover to the new regime handled carefully to minimise client fall-out.

Getting the practice up and running is, of course, just the start. A large percentage of businesses fail in their first year, not because the concept or services provided are poor, but because they are not managed efficiently. It does not matter how many clients the practice has, if there is no profit the business cannot succeed.

A sole practitioner simply cannot afford to have the sort of WIP and debtor figures that larger practices can carry, so must be far more diligent in ensuring a positive cashflow. This means making sure that terms of business are agreed in advance with every client and are adhered to.

Setting up in practice is not for the faint-hearted, nor for the disorganised or those who need the reassurance of colleagues around them. There are many perils and pitfalls along the way, but for those with an entrepreneurial spirit and the willingness to work hard, the rewards are great.

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