

Building a successful business: the economies of scale

You may be one of the many young Scots who are full of energy and good ideas and perhaps dream of setting up their own business. BUT don't try to 'go it alone' too soon with your business plans. This is because you may earn very little take home pay while you are collecting a group of satisfied customers. Whether you make things or offer services, you need money to buy equipment and materials long before sales will give you any income. If your target customers are businesses, it may take more than eighteen months to secure your first sale and even then payment may be very slow. If you

sell services to local residents, they may require only a very part-time service and you might spend a lot of unpaid time chasing payments.

How to get round these problems? You could set up in a local business 'incubation unit'. These are places which help new firms with business ideas and to spark ideas off each other. Locating in an incubation unit is a way to reduce costs by, for instance, providing you with a secure base from which to work. But they do not always give you much direct help to build up your customer base. That's your job.

How big should your business be?

Being self-employed or running a small business is too challenging for many people, simply because of the different tasks that must be undertaken by just a few staff, perhaps by you alone. The benefits which come to large businesses from having lots of staff with a range of skills – or large-scale purchasing or investment power – are called 'economies of scale'.

What does this mean in practice? For example, a creative person may dislike chasing customers for payment, while an accountant may lack the flair for marketing. The computer technician may not like interviewing new staff; the personnel expert may not be able to solve IT problems. A larger workplace enables you to specialise although it can make it harder to build a team where staff work together as a group to consider problems and ways to overcome them. A team can develop a business and maintain a safe environment in which to work, although solutions to problems can be missed if specialists build 'silos' that stifle sharing with colleagues (or because ideas don't occur to sole traders working alone).

You need economies of scale if selling to businesses or for export

The time is ripe for good business propositions; big fluctuations in the price of imports means it makes sense to produce things in the UK rather than import them. Of course the same fluctuations may open up valuable specialist export markets. But importers in foreign countries, perhaps with their own retail outlets, are used to dealing in large

quantities; that means few opportunities for a 'one man band'.

Selling in large quantities has the bonus of providing steady 'bread and butter' work and income. How might you do this? In theory you and other small businesses and sole traders could group together to produce and deliver on a large scale. Unfortunately this rarely works in practice because the group would have no formal record of its combined trading history. Even if one of the group acts as the lead body for contracting purposes, they wouldn't have their own trading history to guarantee the adequate business capacity which would satisfy a potential purchaser.

You need economies of scale if selling to local residents

It's a good time for business propositions which extend the services available to local residents. The growing population of older people seek services which allow them to prolong independent living. This might include help to keep a garden tidy or delivering food. (A list of such services is to be found in ScotSectorlink's 'Finding key local information' example resource).

But if you are a sole trader you face the problem that very few residents need to purchase even a full day's service. You may not have any savings to live off while you build up your customers. You need to have enough clients so that you sell sufficient services to secure you a fair full-time wage; and covering the costs of equipment and materials is hard, as sharing tools or bulk buying are rarely options for a sole trader.

People where you live will usually try to buy services from traders rather than

becoming employers themselves. Of course every resident has the right to employ others, but older people may not have the energy to recruit or to make checks on who is coming into their home (for example via the Protecting Vulnerable Groups scheme or of a foreign national's work permit and driving licence). It is not simple to organise wages and provide cover for staff taking their entitled holidays and rest breaks. A young family could employ an au pair or other helper, but may prefer to be relieved of the effort of keeping within employment law.

So how can a self-employed person like you provide such services, ensuring that you have reliable cover even for emergencies? In common with many sole traders and small businesses you would need to employ someone at least part-time and discount the risks involved. But if you have to turn down work, like so many others already do (for example because it is hard to schedule small jobs and to provide cover in case of holidays or sickness or other emergency), your capital and savings would be sapped.

Many starter firms find they are too small scale to market their products and services. It is difficult for small businesses (for example) to initiate local promotional events to attract visitors and residents who might buy products or services, and to become known and trusted locally including within local planning decisions.

What's the answer? Consider the panel on creating an umbrella company, because that would be a better way for you and your friends to apply your energy and sound business propositions, rather than initially going it alone.



Creating an umbrella company

Much potential economic activity continues to be wasted because local drive and enthusiasm is not harnessed. This could be overcome by a group of local people, including at least some with experience, forming an umbrella company. If this is established as 'a company limited by shares' residents can become real shareholders rather than merely informal 'stakeholders'.

A local umbrella company can turn any job 'interviews' and 'opportunities' into fairly paid livelihoods, by:

- aiming positively to subcontract work to local smaller businesses and sole traders. In return the umbrella company would offer to act as lead partner on bids for contracts where they see a collective business opportunity which would be beyond any one of them bidding alone; and
- using employment contracts which positively encourage employees to leave, taking a 'business' and sound customer base with them, for instance where they have established a viable local gardening service.

Employment contracts could stipulate that departing businesses would be spun-off as a franchise, with the umbrella company being the franchisor able to sell further franchises elsewhere.

The umbrella company could trade its shares to people who are willing to invest.

Nothing would stop the umbrella company from bidding for public contracts or funds, but its ethos essentially should be to thrive by selling services without dependence on public funds.

Accreditation systems: another argument for umbrella companies

For many years the expansion in the UK's stock of businesses has come mainly through an increase in self-employment. Everyone has the right to be self-employed, although the self-assessment of income leaves people vulnerable to onerous investigations by tax authorities.

The income from sole trading is often so low that the self-employed person becomes dependent on welfare benefits; so accreditation systems which charge the self-employed for assessment services make no commercial sense.

Umbrella companies solve this problem – as long as they have been accredited in at least one regulated audit (which they will have been if set up as a company limited by shares).

'Brokered shares' – beware!

Business ideas flourish best when they are based on realistic estimates of costs.

Such realism is no stranger to families with little savings due directly to a decade or more of declining wages and few local job prospects. An increasing proportion of those with drive have negligible assets for investment. Only a tiny minority have assets to risk as collateral to attract loans from commercial banks.

Meanwhile, families who do have savings bemoan low interest rates which look set to continue. But their enthusiasm for investing in business propositions is indicated by the impromptu local 'brokerages' already springing up across the UK.

Such brokerages are open to flagrant misuse and should be regulated.

Peer-to-peer lending schemes also match savers wishing to lend with businesses and individuals with credit-worthiness and the desire to borrow.

Making Scotland even more attractive

If the energy of local people is overlooked then potential economic activity is wasted.

Why not, for instance, exploit the tourist value in Scotland's rich heritage of social history as recorded in its stained glass?

Scotland's stained glass community already forms a core in renovation, new-build, locally-made and eminently saleable mementos for residents and tourists alike.

A few umbrella companies around Scotland establishing new visitor attractions could add fresh initiatives by (for example) displaying stained glass professionally saved from local buildings being bulldozed, selling the Scottish stained glass community's goods and services and, where not undermining existing businesses, show stained glass being produced.

They could develop tourist trails which would add this dimension to Scotland's many attractions. [facebook.com/scottishstainedglasstrust](https://www.facebook.com/scottishstainedglasstrust)