

Starting and running a software business

These are a few thoughts on setting up and running a software business that might be of interest for those in the early stages of running their own company or for anyone thinking of doing so.

These thoughts are based upon my own experience and I hope they might be helpful. You might find them rather novel as they are a little different to some of the “perceived wisdom” commonly peddled by bankers, management consultants and certain TV programmes.

All that follows is simple, obvious commonsense; business shouldn't be made unnecessarily complicated. However, while there are no secrets to running a business, it can't be easy otherwise eight out ten new businesses wouldn't fail within the first two years! Around the time in the late 1970's when we started our company there were perhaps 100 or so other UK companies started in the computer aided design (CAD) business. Of these 100 there are now less than a handful remaining in any recognisable form.

Before taking notice of anything I might say, you should be asking yourself “why should I listen to this guy?” My credentials for offering these thoughts include:

1. For the past 30 years I've been a director of ADE Ltd, a micro-software development and consultancy company. We survived the two previous recessions and, in the process, learnt a few lessons.
2. I was involved in the start-up of two other software companies and acted as mentor to another. I know of a few software people who got rich but, sadly know of many, many more who have failed.
3. I did an MBA at Warwick University to help my transition from management in a large company to working for myself.
4. I'm simply sharing a few ideas and, unlike bankers, accountants, management consultants et al, I'm not trying to sell you anything.

Ten key thoughts:

1. Ensure you know and understand why you want to run your own show. For example, two valid but potentially conflicting aims are:
 - a) get rich or;
 - b) job interest.A few guys who started around the same time as us in the UK CAD software business have each made millions. For us, job interest was and remains the main driver. Being in control of our own company has allowed us to work on some really interesting projects with some great people many of whom have become good friends.
2. Choosing business partners is much more difficult than choosing a marriage partner. Ensure you share similar aspirations and values in order to enjoy a long and strife-free business relationship. Especially when cash is short or a project is in difficulties, relations with business partners can become very difficult.
3. Growth needs very careful planning. Remember:

Sales = vanity, Profits = sanity and Cash = reality

Mind the gap between being small and getting to be sufficiently big to support the overheads of a larger organisation. Most failures in growing companies occur when they don't have sufficient momentum to jump this gap or adequate cash to complete the transition. During a growth phase a

realistic budget for working capital including ample contingency is essential. Banks and others are understandably nervous if asked for cash to finance unplanned working capital requirements.

4. You must be good at promoting your company and winning new business. If not, find someone who is, manage them carefully and be prepared to reward them well for their successes. Winning sales in the early years is hard but as you build a reputation this will get easier. However, I'd generally advise against giving away your time or effort for free without a clear and justifiable reason. Anything given for free is unlikely to be valued or taken seriously.
5. The ability to communicate and to get on with customers and suppliers are vital skills which you can't out-source. As engineers we find it easy to talk with other engineers and to understand their requirements. But on a couple of occasions we undertook projects for architects and, while this should be a closely related field to our normal sphere of operation, we came to realise we were operating outside our comfort zone and those projects were much more difficult as a result.
6. Keeping existing customers is far easier than winning new ones. Consequently it's good practice and ultimately profitable to do everything possible to resolve problems reported by customers. The way you handle and fix problems is a long lasting memory for customers whereas projects that proceed flawlessly maybe perceived as unremarkable or simple and as a result customers, being the perverse creatures that they are, might even undervalue your work on these projects!
7. Software specifications should be detailed but not overly long. They should be written in language the customer understands in order to avoid misunderstandings and specification creep. Failure to realistically estimate the time and cost of developing software has led to the collapse of many software companies. Project management and the ability to focus on the important issues and avoid interesting distractions are also key challenges.
8. Clearly understand your strengths and weaknesses. Concentrate on your particular area of expertise and try not to be tempted into projects in other areas which seem interesting as these are often higher risk and loss-making. Unfortunately job interest may often be inversely correlated to profitability! You must also thoroughly understand the technical and commercial characteristics of your chosen market.
9. Cash flow management is important, but don't expect an accountant to provide solutions; they'll only tell you why you went bust after the event! Admin activities such as submitting invoices, chasing payment, etc are uninteresting but vital. Err on the side of caution when acquiring assets, especially during the early days. Expensive cars and offices might impress the odd customer, but most will be much more impressed by your abilities and your company's solvency. I know of one salesman who lost a sale simply because he visited his potential customer in an expensive brand-new Jaguar convertible.
10. Your honesty and reputation are of paramount importance for long term survival. Reputations are built through consistent, quality work in a particular market over a long period of time but they can be destroyed almost instantly. Honesty and reputation are the most valuable marketing tools available, especially with software because it is less tangible and more difficult for customers to assess than is the case for many other products or services.

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