When is the right time to set up in business transcript

Hi, welcome to today's podcast. I hope you will enjoy me talking about when is the right time to set up your recruiting business.

You may be surprised to hear that, of the people I speak to about setting up a recruiting business, about 90% don't actually go ahead with it, at least in the first 12 months, and quite often never. I think the vast majority of the reason is it's a romantic idea of setting up a recruitment company - it's not me putting them off, that's for sure. Although I don't sell the idea of setting up your own recruitment company because it's a life choice. It wouldn't be morally right for me to try and persuade you to set up your own recruitment company. Plus, I only back a very small number of recruiters so it's not like I need extra people. But no there's a vast majority who don't go through with it.

When is the right time?

That's why it got me thinking about when the right time is to set up your recruitment company, because some of the people I speak to don't think it's the right time, now or never. The right time to set up your recruitment company comes back to two things: there's your disposition, there is you, and where you are in your life. But there's also the cash, and the cash is king. As I always say, placements for vanity, invoice for sanity, cash is king.

So, when you set up your first recruitment company - first and probably only one - if you're good at it, it's all about getting through the first year. It's the cash of getting through the first year that counts. Once you get past the first year, you should then have a good foundation to grow your business. So, what gets you through the first year? This is where it comes down to when is the right time. So, first of all, you need to have sufficient experience.

Are you experienced enough?

I get a lot of people that contact me within 12 months of being a recruiter and I politely say, ‘look you know, in the first 12 months you might think you've got it, but honestly it takes a lot longer to really get to grips with being a good recruiter’. Also, you’ll give yourself a much better opportunity if you've got a better understanding of your market, you knew more candidates, you knew more clients. Because what you can't afford to do when you set up your recruitment company, is fail. I don't do failure. I’ve never had businesses fail; I don't do failure and emotionally and financially for you, you can't set up to fail, you've got to get it right. So, it's got to be the right time. This is where you've got to ensure you get past the first 12 months.

I'd say a minimum of two years' experience, probably more. But then also you've got to be a high billing recruiter, or at least a decent billing recruiter. A minimum of £150k if you're on perm, a quarter of a million if you're on contract. The reason why it's more on contract is as a recruiter you probably won't see the costs that come from factoring, because you have to factor your contractors to pay them, and there's a cost involved with that. That takes out a fair chunk of the profit. So, for the £250k, what you're going to net from that is lower, so that's the level you need to be at.

This is where I have a conversation with the people who are looking to set up to get them to understand where their money comes from. Where in your environment now where you work, do you actually benefit from being there? What I mean by that is, is your income transferable? Do you rely on the company brand, do you rely on being on PSLs, do you rely on the database? Are there things within that environment you won't have when you're on your own?

What I suggest is that you look back at the previous 6-12 months, list all your placements next to candidates, where you got them from, vacancies and where you got them from. A lot of people go ‘II get all my vacancies from LinkedIn, they're all my own. I say ‘honestly do it. You might be surprised’. It also helps you with your business plan. If you want to work with me, it helps me understand where you get your money from, so I can help you make more money from where you get it from or where you're not, and maybe help you with that as well.

Where is your money coming from?

So, you've got to understand where you get your money from. Then you've got to be able to do a sales forecast, and doing a sales forecast is based on looking at where your money's coming from and how quickly you're going to ramp up. So, you do a sales forecast based on when you're going to place. Then you've got to bear in mind when those people will start and when the cash will land. I go through that in my blogs about cash management and how to set up a recruiting business, and it explains in those how to do a cash flow forecast because you need to know the amount of cash you need for you to be able to survive that first 12 months, and more importantly the first 3-6 months until you start making cash.

Because if you don't place for the first three months, a person doesn't start for another month, they don't pay for another month; that's five months' money. Have you got the cash? So that's a big thing for when the right time is to set up - have you got the cash, either from an investor, from your savings, whatever it might be? You need the cash, so that's the right time.

Is your mindset mature enough?

The other thing that you've got to bear in mind is, ‘are you mature enough to be able to work from home? Are you mature enough to be able to work without responsibility? Are you mature enough to be a business owner?’ The reason why I say that is I have seen recruiters - not working with me I hasten to add - they've been billing £150k, they've gone off, set up as a sole trader, and all they're interested in is taking more of the money. They want to take, rather than the 30% which generally you get for your employees, 30% of your billing, they want the rest of it. They've gone out and they take the cash and then they go on a bender and then they go back, they start recruiting again to make more money, and it's really just a lifestyle thing. They want to be able to do what they want, to have more cash and to spend it and be Playboys, Playgirls, or whatever the term is nowadays. That's the wrong thing to do because it's a recipe for a disaster; it really is.

At some point, you won't be able to get back and generate those billings. A VAT bill will come up, a tax bill will come up. It's just not the right time. But also, in consideration of when is the right time set up is what you ultimately want to achieve. What do you want to achieve in your recruiting business? Do you want a lifestyle business, so you want to work on your own from home and generate enough cash that you can have a nice healthy living? I don't necessarily advocate that. It can work for some people, but the number of people I’ve seen that has done it and after the first year, two years, three years, they start to get a little bit too content, maybe a bit lonely, a bit lazy, lack of motivation. It becomes a bit samey, and they can't get the inspiration to do it anymore because it's not getting you anywhere. The idea of a lifestyle business means that the golf gets more, and playing with the kid gets more, and you don't start till later or Sky Sports gets you, whatever it might be.

Some people do it very successfully but it's your disposition. My recommendation for you to last as a recruiter is to at least employ some staff. I’m not saying you have to build a huge business but employ some staff because that gives you the peer pressure to perform. It keeps it interesting and also it gives that revenue that if something happens, say you fall ill. It's important that within, hopefully, the first 12 months if not two years, to recruit somebody to keep you going.

What are your aspirations?

So, coming back to your aspirations. If your aspiration is a boutique business - so 3-5 people - then that takes a little bit less experience. If you're looking to build something more significant - 20 or 30 people - that takes more experience. But in saying that, it depends if you’re doing it on your own. So, are you doing it on your own? Have you got a business partner with you, i.e., a recruiter that you've worked with in the past or working with now? Somebody who's got some experience. Or are you going to work with somebody like me, a mentor, or somebody's going to help you on that journey, so you don't necessarily need that experience? Because setting up on your own is a brand-new job without an instruction manual. You're moving to a new job, and you've got no support base and you've got to learn all the skills of growing and running and managing your business, but you've got nobody to show you how to do it. That's a hell of a risk.

Building a recruitment business isn't rocket science. I’m not going to say it is. But there's a lot that can go wrong, and there's a lot of distraction and it's the distraction that can hamper your growth in the business because you've got VAT, you've got marketing and you've got IT and all the other things. So, this is where I do heavily advocate having somebody there that you can talk to, to help you with some of the basics that you've got to learn as a business owner - the accounts, how to deal with IT, how to deal with marketing. Having somebody alongside you and somebody to talk to, to run through your ideas. It can be a bit of company. You can sometimes need motivation, and also a big thing is peer pressure. If you work with, for example, somebody like me, you know I'm super ambitious on all the businesses to grow massively and you know turn into great wealth-generating businesses. I don't take control; the businesspeople that I set up and work with, they're in control. If they want to keep it small, they keep it small. But I'm like a puppy, I'm always bound with enthusiasm to build it bigger. And that can really help. If you've got somebody that's got that motivation to keep you going because if you're on your own, it's very easy to become too satisfied.

Are you doing it alone?

Also, you may not know how good you can be and where you can go but if you've got somebody with you who is experienced, they can help you get there quicker, easier, with less stress. So, if you could find somebody you can work with that you feel is going to help you from that side, you trust and you've got the experience, that can bring in the right time to set up a business.

There are also other factors like is it a recession? How is your market? Also, have you come across a golden opportunity where you've got a client that has got loads of vacancies they want to give you? That's great but you've got to bear in mind your restrictive covenants because virtually all recruiters have restrictive covenants which stop you from dealing with your current clients that you've been dealing with for the previous 12 months, for six months going forward into your business. Generally, it's the same with candidates, it's six months going forward but it's only six months going backward; you've got to bear that in mind.

You may have a friendly employer that isn't going to hold you to your covenants, but it's something you've got to consider when you're setting up. If you're going to keep those covenants that can potentially hold you back, so there are various things to consider when you're looking to set up. Have you got the support of your partner? If you're married or you've got a girlfriend or boyfriend or whatever it might be, it helps considerably if they're supportive of you because there are going to be times when it might be stressful. You're going to work long hours and if they're not really buying into it, it can hold you back. You do need the support of the person next to you. So, you've got to bear that in mind as well.

Be realistic

I get a lot of recruiters, bearing in mind, as I did when I set up, they want to buy a house. So, if you set up a business and for the first 12 months, you're not going to get a mortgage. I can't say for certain; I'm not a financial adviser. But you're certainly going to struggle because you probably need to be trading for two years. A lot of people think it's three years, but no it's two so you've got to bear that in mind if you want to buy a house. There are ways you can mitigate that but that's something you do have to consider. Don't go stampeding into setting up your own business, then go ‘oh no I can't buy a house now’, because I haven't got more than 12 months’ accounts. So that's something to consider as well.

The overriding thing for me is you've got to be able to demonstrate to yourself that you've got the cash to get you through the first year. That's not cash saved up; it is generating the cash and actually fund enough to get through the first year because ideally what you want is not just enough to get through the first year; it's enough to have some fat in it in case things don't go according to plan. Preferably hire one, if not two people in the first 12 months. At least you've got the ball rolling.

Start building your staff

The other thing I forgot to mention, about when is the right time is, getting your first 1-3 members of staff is usually the hardest. The safest possible option of hiring your first member of staff is somebody that you've worked with that you know is a guaranteed biller, so you're going to get on with them, you know they're good and you know they're going to work out. So if you've got an opportunity - there's somebody that you know you worked with previously or you work with now that would like to come with you, either is a partner or as an employee, that could be the right time to strike because you're going to get that critical mass immediately. If you can have that critical mass immediately, that helps flatten things out because you can have a bad spell, but if you if there's two or three of you, then there's a much lower chance you'll all have bad spells. You'll be able to get through.

Also, as I mentioned, it can be difficult on your own, so if you've got one or two people with you it can help massively in the enjoyment of the environment, the inspiration and bouncing off things. It can make it a lot easier. So the timing can be based on the fact that you've got an opportunity to partner with a previous colleague or there's somebody that you think would come with you. You can ask them ‘I’m setting up my own business, I want to start making cash in the first three to six months, would you want to come with me?’. If they do, great then that could be the right opportunity.

Going right back to the start of this podcast, the 90% of the people that don't go ahead with it, for some people it's never the right time. You want, it you dream of it; the idea of it is fantastic, but the fear factor holds you back. That will never be the right time. I think you've got to look at yourself and go ‘okay, am I making excuses that it's not the right time, or is it just not for me?’ because it's not for everybody.

I’m an evangelist for it because I’ve set up my own two businesses and absolutely loved it. I work with businesses now and I get my buzz vicariously through them. That's why I do what I do, and I can't set up my first business twice, but I get the buzz now from those businesses and even better, I get the buzz because I can actually enjoy the moment. Because when I was in the moment myself, I was too busy doing my job to actually stop and enjoy the moment, so I didn't enjoy it as much as I could. A bit like a footballer that's going to go and play at Wembley. The coach says to make sure you soak it up and enjoy it. The first few years went so fast that I didn't have time to enjoy it, but the buzz I get now from the other people that I work with billing, that's why I do it, so setting up on your own is amazing.

However, for people that are risk-averse, the people that are very concerned or worried about putting the money in the bank to cover the mortgage for the family - it isn't for everybody, and you just got to accept that. I don't try and persuade people to do it because you've got to understand that, but the quicker you do it the better, because you don't want to spend time wondering and thinking about it. But conversely, it's a well-known fact the biggest regrets people have in life are the things that they don't do.

Conclusion

So you've got to bear that in mind that you don’t want to look back in 10-15 years’ time, and go, ‘I wish I really did it’. You've got to bear that in mind, but I’m not going to try and persuade you to, because it is a big life decision.