

## Lesson 9: Getting the size of your premises right

 By [Alon Raiz](#)

18 Feb 2021

One of the first paradoxes a startup entrepreneur faces is choosing the size of their first rented - or purchased - business premises along with the duration of the lease. If you are efficient with scarce cash resources, the ideal approach is renting premises that are appropriate for the current number of staff and functions in your business.



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However, when you start growing you will soon run out of space and be forced to either take on new rental space in the same location or terminate your lease agreement which will most certainly come with penalties or, more likely, a demand for full payment of the lease for the full period.

If you're signing a three- or five-year lease agreement, you effectively have to guess how much you'll grow in the next three to five years. This guesswork is almost always inaccurate – in either direction. This means either you have superfluous space which is costing and arm and a leg which, in turn, is reducing your capacity to grow, or your lack of space is constraining your capacity to grow. A paradox indeed.

It has been my experience that startup entrepreneurs tend to overestimate their growth trajectory and, as a result, take on premises that far too large for their needs. If they then fill this space with expensive and unused furniture, the problem is further exacerbated.

In the past few years, the flexible working space industry has grown in popularity and solves this problem quite elegantly for small businesses. The entrepreneurial business can expand and shrink its footprint in a pattern that closely resembles its growth or contraction. There are even flexible working spaces these days for a manufacturing context. What you may lose in egotistical independence (the ability to tell your friends and clients that you have your own offices), you gain in terms of more efficient use of scarce cash with the added benefit of a reduction in headcount and salaries for the likes of receptionists, cleaners and IT support.

Another common mistake entrepreneurs make with their premises is overcapitalising on immovable fixtures and fittings. There needs to be a careful balance between aesthetics and functionality particularly when it comes to immovable fixtures such as drywalling, air-conditioning, paint, carpeting and tiling, lighting and so on. The cost of this over-capitalisation once again reduces the amount of finance available to support the growth of the company.

When starting a business get used to the “industrial” look and save cash for more important growth investments in your business. Become creative in how you can use the current drywall floorplan as opposed to knocking everything down and building the offices from scratch. Even floor tiles do not need to be completely lifted and replaced. Often there are just a few carpet or hard tiles that are damaged, stained or worn out which can be removed and replaced, once again saving you that currently scarce resource – money.

In summary, be creative, ego free and frugal when setting up your premises. There will be plenty time for building a fancier work environment once your business is profitable and sustainable.

## ABOUT ALLON RAIZ

Allon Raiz is the CEO of Raizcorp. In 2008, Raiz was selected as a Young Global Leader by the World Economic Forum, and in 2011 he was appointed for the first time as a member of the Global Agenda Council on Fostering Entrepreneurship. Following a series of entrepreneurship master classes delivered at Oxford University in 2014, 2015 and 2016, Raiz has been recognised as the Entrepreneur-in-Residence at the University of Oxford's Saïd Business School.

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