



Essential information to help you build a brilliant business

the **Essential** **Start-up** Guide

By **Essential Business** in partnership with **cobweb[®]**

Who's behind the Essential Business books?

This **Essential Start-up Guide** is published by two companies that have wide experience in business, and know that businesses need practical, no-nonsense information.

The **Essential Start-up Guide** is published by Essential Business, a small publishing company founded in 2002 with the aim of producing genuinely engaging and useful business materials.

The company was started by **Julie Stanford**, a business owner of over 25 years. She believed that many business owners were far too busy to spend hours searching for information, but that not knowing about certain aspects of business could be damaging. There were plenty of business books out there, but Julie saw the need for ones that not only had the right information but were also readable and easy to use.



Julie Stanford and Marianne Whitfield – taking care of business

The first book was a local edition of **The Essential Business Guide**. It sold out within months, encouraging Julie to create a second, national edition. This won the coveted Plain English Award – the only business book ever to do so – and began to be called 'the small business bible'.



The third edition, in partnership with The British Chambers of Commerce, built on those successes. Word spread, and thousands of copies were sold, not only to individuals, but also to business support professionals, colleges and universities who like the clean, easy to read style.

In Spring 2011, Julie met with **Marianne Whitfield**, director of the highly respected provider of comprehensive business information, Cobweb Information. The two companies combined their experience and expertise to produce a fourth edition.

This booklet, in the same style as **The Essential Business Guide**, gives a taste of the look and feel of Essential Business books. If you like what you see, you'll find information about our other books on the inside back cover.

Essential Business and Cobweb share a vision to provide clear and straightforward information to UK business owners. Real information, no wasted words.

The Essential Start-up Guide

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For the attention of our readers

The Essential Start-up Guide offers business guidance and information, and not direct advice.

If you want more detailed information and guidance, we recommend that you always take advice from professionals in the subject area. We have listed some key national business resources for your further use.

We cannot guarantee the level of service you will receive from the organisations listed as that will be subject to your own agreed contract. Thank you.

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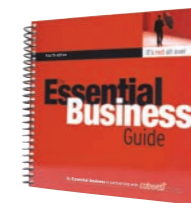
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Welcome

You're probably reading this **Essential Start-up Guide** because you're thinking of starting a business, you've just started a business, or you're in a really, really boring corporate meeting. Whatever your reason, we're glad you're here. Starting a business can be one of the most exciting, challenging and scary things you'll ever do.

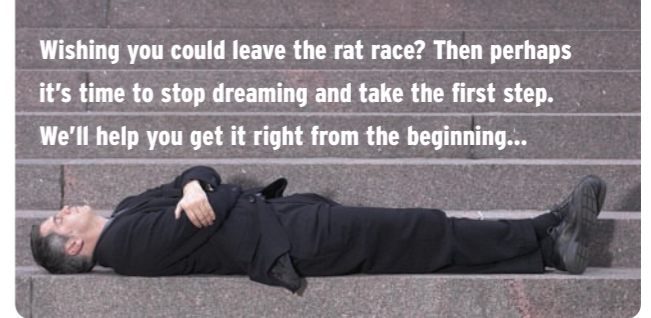
We know because we've done it. We know that starting a business can feel like standing at the start of a maze. You're not sure where you're going to turn next, which direction you should be going, or if you'll ever find your way out again. We're here to help.



This book is specially designed to make you think before you plunge in and to help you start on the right track. Once you get going, you'll need a lot more information about law, marketing, finance, people and the day-to-day challenges of building and growing a successful business. You'll find all these in our comprehensive and award-winning book about running your business, **The Essential Business Guide**.

We wish you every success in getting your business where you want it to be. Let us know how you get on...

Julie *Marianne*



Wishing you could leave the rat race? Then perhaps it's time to stop dreaming and take the first step.

We'll help you get it right from the beginning...

Is business right for **you**?

REALITY CHECKLIST

When starting a business, expect the best but prepare for the worst!

- Do you have previous management or business experience?
- Can you put in the time and effort?
- Can you live without a guaranteed income?
- Can you control your finances?
- Do you have the money to start and run the business?
- Can you cover your own and your family's living expenses?
- Will you be content to lower your standard of living, perhaps for a while?
- Do you have 100% commitment to your idea?
- Are you clear about your goals?
- Will your friends and family back you in the good times and the bad?
- Do you have experience of your market?
- Do you have the skills you will need?
- Are you prepared to learn new skills?
- Do you get on with a variety of people?
- Are you a good decision maker?
- Do you have willpower and self-discipline?
- Are you organised and a good planner?
- Are you happy working long hours?

Ticked less than half? Maybe think again!

More and more people are starting their own business, but is it right for you?

People decide to start a business for all sorts of reasons. For some, it's simple: they see a need for a new product or service and get straight on to it. Others find that something they've been doing as a hobby or a favour for friends grows and grows... Suddenly, they're hiring helpers and premises to cope with the demand.

Spend some time thinking about why you want to start a business. Think about ways in which you can set up your business so that it suits your personal strengths and weaknesses (see opposite page). Take time also to make sure you know what you want from your business (see page 4) and that your proposed business can actually deliver this for you (see page 5). Think about how much time you can devote (see page 6) and whether you can go it alone or will need to call in help (see page 7).

Then you can really get going!

Essential resource

To help you organise your thoughts, download our free **Before You Begin** workbook pdf from our website at: www.essential-business.co.uk, and fill in the worksheets using the guidance provided. It will help you clarify the whole process.



Can't get no...?

Self-employed people generally have higher levels of job satisfaction than most of the population.

Study by Professor Oswald of Warwick University.

Are you right for your **business**?

Be realistic. If you already have a business idea, is it right for your personality?

There are some basic questions you should consider. For example:

- Do you get a thrill from taking risks, or does it terrify you?
- Are you thrown into a panic by financial insecurity or do you relish the challenge?
- Do you like communicating with people – really, really like it – or are you quite shy?
- Do you like to have structured routines in your life, or are you very adaptable?
- Are you happy to work alone and be self-sufficient when needed or would this drive you demented?
- Can you do lots of jobs at once, and switch easily between them or are you a one-track-at-a-time person?
- Are you optimistic and resilient, or do you easily become disheartened if things do not go to plan?

Remember

Do you really believe in your business?

If you don't, then how can you expect anyone else to?

Think about how each answer fits with your initial business idea:

- If you are not naturally a risk-taker, and hate financial insecurity, have you chosen a business idea that will need a big investment at the start? If so, can you find ways to finance it that will not leave you penniless if it all goes wrong?
- If you're shy, can you employ a telemarketer?
- If you love being around other people, but would be working alone in your new business, can you join with others who work

in related businesses, or rent space in a shared office? If not, you could make a point of joining some networking groups, so you don't just end up talking to the cat for company.

- If you are well organised and good at multi-tasking, you will be glad of these skills once you start your own business, away from all the natural support structures of many employed jobs. If you know that you are a disorganised person, put structures in place to help you create order (for example, invest in good management software or rent a serviced office). You could also employ others in the areas where you need most help (for example: a freelance book-keeper, business adviser, or general elf).
- If you're easily disheartened, consider using the services of a business adviser or mentor who can help keep you focused and positive.

Start with the end in mind

What are you setting up your business for? Do you want to make a million, retire in ten years' time, get out of the rat race, spend more time with your children, pursue a hobby... Or what?

Knowing what you want from your business is a good place to start. It sets a clear goal to work towards. You can then begin working out how you will achieve this goal.

If you know what you want to do, it's tempting to print some business cards or leaflets and get started straight away. Don't even think about it.

Unless every single thing that you do takes you a step closer to the goal that you have set yourself, you could be putting a lot of time, energy and money into activities that are taking you in completely the wrong direction.

A well thought-out plan is one of the cornerstones of a successful business. It helps you to think through your ideas, goals and actions before you rush in.

Planning what you will do and how you will do it may feel like putting the brakes on... but it could save you much money and heartache later. Rushing into business without researching your market or planning your finances could be the quickest way to kiss your dreams goodbye.

Knowing your values

When you are making your business plan, it is important to think about the values that you will live and trade by.

For example, will you keep your promises in a sector where many don't? Will you make sure that your products are not produced by child labour? Will you always honour your guarantees?

Knowing what your business stands for can give you a competitive edge in the market. It makes your business distinctive and different and thus more likely to achieve your goal.

What's in a plan?

Objectives: what you want to achieve/where you want to go

Strategy: how you will get there

Operations: all the things you need to do to get there

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Your business idea

A good business idea is, by definition, a product or service that sells. If you start with something you're good at, that doesn't necessarily translate into something people want to buy. Lots of business ideas look great on paper, but the only test that matters is whether they're great in the marketplace.

You can't be sure that your initial assumptions about your business are right unless you do some proper research (ie don't just ask your mum if she thinks it's a good idea).

You need to be able to answer these questions:

- What makes you think anyone will buy your product or service? What evidence do you have for this?
- If people say they will buy from you, how will you deliver your product or service in the quantity and at the quality that people will want?
- Can the business make enough money to be worthwhile?
- How long will it take to start covering your living costs? (See page 14 for more about your personal survival budget.)

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It's useful to spend some time thinking about what your business will do instead of rushing into the first idea that springs to mind.

Not sure what you should do?

If you have only got as far as thinking you would like to start your own business but don't yet know what you could do, you could start by listing your skills and strengths. If your business is based around the things you're good at or the things you enjoy doing, you're more likely to keep going even when things get tough. However, make sure that your business can deliver the goals that you have set yourself, whether it's a million pounds in the bank or a million widgets sold.

On the other hand, you may have spotted a gap in the market for a product or service that you have no idea how to produce or deliver. No problem! If you can *sell* that product or service, you can hire someone who is positively brilliant

at making and delivering it instead. Remember, Richard Branson can't fly a jumbo jet but that didn't stop him building a highly successful transatlantic airline company.

To launch a successful new business, three things are crucial:

- 1 You need to be the right sort of person
- 2 Your business idea must be right for the market
- 3 Your idea must hit the market at the right time.

Luck also helps! So, hope to get lucky but also do your planning. The bottom line for any business is: **do enough people want to buy what you want to sell?**

Essential resource

Emyth Mastery
by Michael Gerber

This excellent book teaches the 'seven essential disciplines of the successful business owner'. Although requiring time and effort to read, it's worth it.

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How to research and plan your new business is all covered in detail in our *Start your Business Step by Step* pack available only from our website at www.essential-business.co.uk

Finding the right skills



Running a business demands a wide variety of skills. Can you cover all these areas yourself?

Just because you are fantastically good at a particular skill – painting, accounting, repairing computers – that doesn't make you fantastically good at business. You may know all there is to know about paint or computers, but what about the other skills a business needs? Do you know everything you need to know about strategy, planning, marketing, management, or finance?

Which are the areas where you'll need to call on professional help?

- How are you going to let your customers know you are in business?
▶ *Marketing and selling skills*
- How are you going to gather information about your market, your customers and your competitors?
▶ *Research skills*
- How are you going to manage your time?
▶ *Organisational ability*
- How are you going to set objectives, actions or tasks?
▶ *Planning skills*
- How will you manage your IT?
▶ *Technology skills*
- How are you going to meet the right people to talk to?
▶ *Networking know-how*

- How are you going to talk to people about your ideas, what you do or what you sell?
▶ *Communication skills – including talking, listening, writing, telephoning and presentation skills*
- Do you have the ability to compromise and see long term?
▶ *Negotiation skills*
- How are you going to motivate, manage and lead the people who work for you?
▶ *People skills*
- How are you going to manage, control and keep records of your finances?
▶ *Financial or accounting skills – or a willingness to learn about this key area of running your business*

Don't feel that you have to have all these skills in place before you can start a business. You can hire an accountant, a lawyer, send staff on training courses, and go on training courses yourself. Just be aware that if you don't have one of these skills, call on someone who does, rather than trying to muddle through.

There's one skill, perhaps, that no-one can help you with in business:

- Do you accept the responsibility?
▶ *Decision-making skills, and the ability to live with your decisions, whether right or wrong.*

A point to ponder

Get into the habit of looking at your business from three vantage points:

Ground level – the way you do things day to day, your processes and procedures

Middle level – the way you manage getting your product or service to your market

Top level – where you are heading and how you will manage the journey from here to there

Full-time? Part-time? New? Existing?

Are you going to make a full-time commitment to your business, or run it alongside your existing career?

Plenty of people begin a business as a spare-time project. Others want – or need – a new, full-time commitment. Also consider whether you want to start a business yourself from scratch, buy one that's already trading, or think about franchising.

Ways to start a business

Start-up

Starting up a new business gives you the chance to turn your own ideas into reality.

Buying an existing business

This can be less of a risk than starting from scratch (although you will pay a price for that reduced risk). The business should already have existing systems, clients and a reputation in place. Caution: Ask an accountant or business adviser to review the business, and the market value for that type of business, before you commit to buying it.

Franchising

Franchising allows you to start your own business using someone else's brand name and know-how. There is less risk in starting with a franchise, but there is no guarantee of success.

You lose some autonomy, because you have to use the franchisor's brand name, and the systems that the franchisor dictates. **There is more information about franchising on page 19.**

Who else is out there?

No matter which form of business you're thinking of, before you commit yourself, you'll want to know who you'll be competing against.

- Are there any trade publications for the area you are looking to enter? Read them. Find out what's going on in that market.
- Are there professional bodies associated with your industry? Can you get an idea from them whether the market is in a trough or on the up?
- You can also buy the services of a market-research specialist or data-listing company.
- Gather as much information about your competitors as you can. What are their prices? What services do they offer? Can you offer a better price or a better service? **Read more about pricing on page 11.**

Home alone?

Working from home may seem an easy and inexpensive option when you're starting out. In these days of broadband and VoIP, you can run a multinational business from your back room with very little outlay. You can also claim tax allowances for expenses such as heating and lighting. No commuting, work in your pyjamas, and if you're struggling with that spreadsheet, hey, clear the head with a quick walk round the block instead. What's not to like?

Well, it's easy for the boundary between home and work to get blurred. It's very tempting to check that last email before going to bed, or to find that the family can't eat because the table is piled high with half-hemmed garments or the latest invention.

Making a clear line between family and business, especially if it's in your home, can give you a better work-life balance in the long run. And help you achieve *all* your goals.



Standing out from the crowd

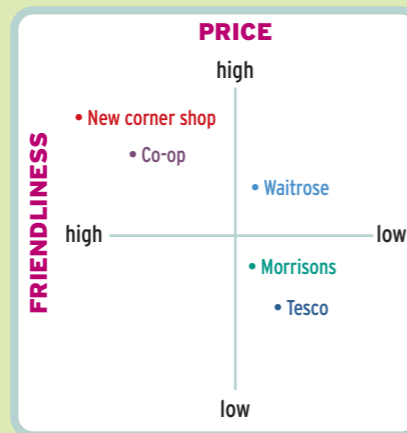
When you are thinking about entering a market, how can you avoid going straight into a space occupied by an existing competitor?

Going head-to-head with an existing business – a competitor – when you are new to the marketplace will almost certainly make your life harder.

Competitors are anyone who can get your target customers to spend money with them that they might otherwise have spent with you. Competitors may not be offering exactly the same product or service that you plan to offer, but they will either ‘solve the same problem’ for the customer, or have the capability to do so.

You might find it helpful to draw some diagrams or positioning maps to help you think about competitors, and to identify the gaps you could fill in your marketplace. These show the positions already occupied by those already serving the customers you want to target. They will also help you to decide what type of image or brand you could develop for your business.

In an ideal world, you would base your positioning maps on *how your potential customers see your competitors*, not just on your opinion. You might need to do several, too, looking at different aspects of your product or service. For example, if you were setting up a corner shop in a village, one of your diagrams might look like this:



This diagram would tell you that customers scored the small local **Co-op** quite high on friendliness, though its prices are higher than those of the supermarkets.

Tesco has the lowest prices locally, and you may have no chance of matching their prices, but your new corner shop can easily be seen as friendlier. The other two supermarkets were seen as friendlier than Tesco, with lower prices than the Co-op.

As a new shop owner, you would need to find a position where you stand out from the crowd. If you have no hope of fighting the competition on price, you'll need to beat them on friendliness, customer service, importance to the community, or whatever is most important to the customers you decide to target.

By producing a similar map, you can position yourself clearly in the market and avoid a (potentially disastrous) head-to-head battle with an established competitor.

It's all in the name

Many people underestimate the importance of choosing the right name. But there are legal as well as artistic considerations, too.

You can trade under your own name or have a different business name:

- **Sole traders** tend to use their own name, such as Peter Smith, but it should also reflect your type of business – Peter Smith Florists
- **Partnerships** can trade under the names of all the partners or a business name
- **Limited Companies** or **Limited Liability Partnerships** can trade under the registered name or a different business name.

- Are people going to know what you actually do from the name?

Test out your ideas on friends and family – they will soon tell you what's good and what isn't!

Make sure that your business name is not too similar to another existing business in the same sector or industry or you could face legal action.

No-no's

"I quite fancy calling my dog-grooming service The Royal Bank, Ltd..."

There are certain names that are not allowed. You cannot choose a name that is:

- misleading
- likely to cause confusion with an existing business
- judged to be offensive.

There are other names that have restrictions, such as British, Royal and Bank.

- You can only use Limited or Ltd, if you are a limited company.
- You can only use LLP if you are a Limited Liability Partnership.

You can check what's in use at the **Companies House** index of company names and LLPs:

www.companieshouse.gov.uk.

Companies House can also tell you more about what is restricted.

Always check that you are not infringing any trademarks with the name you choose. A company registration agent can check for registered trade marks.

Registering your business name

You do not, by law, have to register your business name, but this can protect your name and brand as your business and reputation grows. (Visit the **National Business Register** for more information: www.start.biz or call **0800 069 9090**.)

You might also consider registering the name or logo as a trade mark with the **Intellectual Property Office**. Visit www.ipo.gov.uk or call their central enquiry line on **0300 300 2000**.

Quick tip

When you're thinking about your business name, remember that you may also want to register it as a domain name for a website and email. To check which web domain names are available, quickly and for free, use a name registration service such as: www.netnames.co.uk

What makes a good business name?

- What image do you want to project?
- Is it memorable?
- Will it limit your growth?
- Does it belong to someone else already?

Name and image

Use the thinking you've done about your position in the market (see page 8) when you're deciding what to call your business. **Pete's Pie Shop** and **The Beautiful Bakery** may sell exactly the same products, but would appeal to different customers.

Choosing your customers

Many businesses serve the customers who come to them, rather than building the best mix of customers for their business. Don't make that mistake.

Do you know who your ideal customers will be?

The best way to approach this crucial part of your planning is to start right at the beginning, and think about who your customers *should* be. This applies whether you are starting a new business or running an existing one.

There will be some customers who are easier to win, some who are harder but more profitable, some who will appreciate your strengths more than others, and so on. Can you find the best combination? Can you find the ones who will buy from you with less persuasion, more frequently, and for a higher price than others will?

Work smarter, not harder

Even when your business is up and running, it is a good idea to take a step back from time to time, and think hard about what mix of customer types would be best for you, to match with your strengths, and to meet your business goals.

If you do this right from the start, you can 'work smarter, not harder'. You are less likely to find yourself in a situation where you are working all the hours there are for very little profit.

Remember, being busy will not in itself make you successful. You need to be busy doing the right things, for the right people.

Here's an example of choosing your customers:

What am I best at doing?

Management consultancy and training, but more usefully: *making companies more profitable.*

Who will appreciate it most?

MDs of companies that are big enough for me to make a real difference to their profits.

How easy are they to convert to a sale?

I can reach them via networking events and free seminars, and eventually referrals from satisfied clients.

How many of them are there in my area?

Enough for me to win five or six contracts a year.

Will this be enough business?

No, I will also be running some training for colleges (less well paid, but steady work), and offering business support and mentoring via my website (offering more to existing, satisfied clients).

What mix of customers would be ideal?

By my third year in business, I would like to have stopped training in colleges, and be doing an equal amount of company training work, consultancy, and online mentoring, whilst setting aside some time to spend writing my book.

Perfect pricing

How do you choose the right price for your product or service? The right way, of course.

The price of your product or service must contain three elements:

- 1 The cost to produce
- 2 The cost of the time/people to get it to your customer
- 3 Your profit margin.

The first two are reasonably easy to work out. However, remember to take into account that some costs might change. Allow some leeway for these in your calculations.

For example:

- If you are working from home, you might need to move to bigger premises and take on staff as your business grows
- Once your business grows, you might have to pay somebody to do some of the jobs you did yourself at the start.

The third element, your profit, is not so simple. New businesses often under-price their products or services. This is often because they lack self-confidence, and do not understand their markets well enough.

Many new businesses calculate their prices using these two pricing methods:

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The best pricing method

A much better method of pricing is to decide first where there is a gap in the market. You can then design your product or service in such a way that it fills that gap.

For example, a newly qualified sports/holistic masseur has to decide what to charge for each treatment. He could work from home to save costs, and thus offer massage treatments more cheaply than his competitors in the area, who all work from premises. However, he knows that if he does so, people might perceive his service as somehow inferior.

So our masseur decides instead to rent a room at the local leisure centre, charge a price just above those of the local competitors, and specialise in sports massage. He spends some of the extra profit on making his leaflets a bit glossier, and his towels a bit fluffier than he could have afforded otherwise. His customers are willing to pay more because they can see that every aspect of what he is offering is of consistently higher quality than the competition.

- 1 They look at their costs, then add on a margin that gives them a certain amount to live on.
- 2 They try to 'get a foot in the door' by selling their product or service at a lower price than the competition.

Of course, it is important to know what your costs are, and to be aware of the prices charged by your competitors. But the big problem with these two pricing methods is that they do not take your customers into account. Your price sends out very strong messages to your customers, and affects the way they view the quality of your product or service.

Where will the **money** come from?

Here we look at start-up funding: the money you'll need to get your business off the ground.

You'll need some start-up funding. You may need to buy supplies, such as letterheaded notepaper and stationery, make phone calls – perhaps buy a phone first! – invest in a computer, buy in some stock... and all of these cost money. Remember: it may be some time before your business brings in money from sales to cover these initial costs, so where will the money come from in the meantime?

There are various ways you could get the money together to get your business up and running:

- **Fully self-finance:** you have the money already. In this case, all you need is a business bank account and you're away.
- **Part-finance:** this means you need to get a loan from somewhere. Banks usually require some security against a loan such as a property or life-insurance policy. Visit all the banks to discuss your finance options. Banks will usually want to see your business plan and a cashflow forecast. They'll want to know how you will cover costs if the sale you expect in January doesn't come in until March. Putting a business plan together helps you to look at the best- and worst-case scenarios for your business and think about how you will deal with them.
- **Government support for business:** The most widely available Government-funded grants are for research and development but there is a range of grant schemes available in the different regions of the UK. For details of grants in **England** go to the Department for Business, Innovation and Skills; in **Wales** go to business.wales.gov.uk; in **Scotland** go to The Scottish Government; and in **Northern Ireland** go to Invest Northern Ireland. See **Essential contacts** opposite.

- **Soft loans and grants:** Enterprise agencies (See **Essential contacts** below) can provide advice and financial support to pre-start, start-up and micro businesses.

Soft loans often require no security and are used to support viable businesses that cannot raise all of the finance that they need from other sources.

Grants often have quite narrow eligibility criteria. For example they may only be available in certain areas or for certain business sectors, or for specific types of people (for example, unemployed or young people) or projects (for example, marketing or buying IT equipment).

A note of caution: Grants are sometimes thought of as 'free money' – but they're most definitely not. Time and effort is involved in applying for grants, and they can be difficult to get. Always allow plenty of time to apply (months). Also, grants don't come without strings. Don't start your project before your application has been agreed, as most grants will not be awarded for retrospective work.

- **Friends and family:** If a friend or relative wants to lend you money to help get your business started, it's a good idea to make a formal rather than an informal agreement. If your business goes on to make a million, is your investor going to get half of that? Or just the hundred quid that they lent you in the first place? Putting it in writing can help ensure that your business doesn't cost you a friendship.

Essential contacts

For more information about grants:

- **England:** www.bis.gov.uk
- **Wales:** www.business.wales.gov.uk
- **Scotland:** www.scotland.gov.uk
- **Northern Ireland:** www.investni.com

The NFEA is a network of independent local enterprise agencies in England. Go to www.nfea.com to find your nearest enterprise agency.

QUESTIONS AT A GLANCE

Q SHOULD I PAY MYSELF?

Many small businesses fail because the owners either take personal drawings too early or they take too much. You may decide not to pay yourself until the business is profitable. But you could be waiting a while. You can pay yourself if you've included that pay in your financial projections. But you must then achieve the income levels you have predicted.

See more about taking money out of your business on page 19.

Q WHAT SORT OF FINANCIAL RECORDS DO I NEED TO MAINTAIN?

You will need to maintain records of your sales – the money coming in – and all the things you buy – the money going out. You will need systems in place to monitor your costs and income. This can be through a purchase and sales ledger system, a well designed spreadsheet, or a payroll system if you are taking on staff. Think about consulting an accountant or financial adviser because getting this right is key to your success.

DULL BUT VITAL

By maintaining good financial records you can save yourself time and money in audit and accountants' costs. You will also sleep much more easily at night!



*This is just a first look at the crucial issue of money in your new business. There is much more detailed financial information in **The Essential Business Guide**. We also recommend that you consider seeking professional financial advice.*

How much **do you need?**

How much money does your business *have* to make? It depends on your circumstances, of course, but we all need something to live on.

You need money to survive. You need to be paying the mortgage and putting shoes on your children's feet. So how much money are you looking for from your business? Use the charts here as examples for you to work out the sums. Sometimes it's easier to work out what you spend on average per week and add it up for the year. For other costs, you'll have a better idea of what the average figure is per month.

Estimated expenditure	Week	Month	Year
Mortgage		800	9,600
Council tax and water rates			1,200
Gas and electricity		62	744
Personal and property insurances			400
Food and general housekeeping	150		7,800
Clothes		50	600
Telephone		34	408
Car tax and insurance			900
Car running costs	25		1,300
Car service and maintenance			300
Other travel	20		1,040
Hire charges (video or TV, for example)	10		520
HP and loan repayments		18	216
Subscriptions		7	84
Children's activities		40	480
Saving plans	12		624
Cinema, outings, other entertainment	25		1,300
Holidays			2,000
Reserve for the unexpected			1,000
Estimated expenditure total			£30,516

Now work out what other income you and your family will have to live on. (Don't count any income you expect to make from your business.)

Estimated income	Week	Month	Year
Partner's income (after tax)		1,350	16,200
Pension / redundancy pay			3,000
Other income	12		624
Estimated income total			£19,824

Now, deduct your income from your expenditure.

Expenditure	30,516
Income	19,824
Your survival income	£10,692

Your **survival income** is the minimum amount you need to be able to draw out of the business (as net salary if you are a limited company, or as drawings if you are a sole trader) just to maintain your current standard of living. You'll also need to put aside tax and National Insurance.

The business in the example above needs to make a profit of just under a thousand pounds every month in order for the family to carry on enjoying their holidays and the roof over their heads.

Your survival income is the *least* your business has to earn for you to carry on as before. Your business will need to earn more before you can afford that yacht.

How much **can you earn?**

It's easy to be optimistic and imagine the millions rolling in. But a sanity check is useful, especially if your business is providing a service.

How many weeks in a year? 52. But will you be working all those weeks? Employees are entitled to 28 days holiday (if the employee works five days a week), so you might want the same. But let's assume that you'll take five weeks. So now you're looking at 47 working weeks each year.

And how many days in a week? That's right: five. You may work weekends, but you probably won't want to assume you're kissing a complete goodbye to friends and family for a year. So 47 weeks x 5 = 235 working days to earn money in.

Assume that you'll work for eight hours a day. 235 days x 8 = 1,880 hours over the year.

However, not all of those hours will actually be cash-productive hours where you're earning something. The time you spend marketing, on the phone, talking to potential customers, ordering materials, squinting at your bank statements and getting your ads in the press is all time invested into making more money in the *future*,

but they're activities that don't bring in cash now.

So let's assume that half of your time will be spent on these activities that are vital to any business. (It may be far more.) So 1,880 hours - 940 = 940 hours.

How much per hour?

Take a look at the personal survival income on the previous page. That business owner has to take **£10,692** (after tax) out of the business just to stand still. That means earning £11.37 for every productive hour.

And that's £11.37 profit. That means £11.37 after the costs of the business are accounted for and you've paid your income tax and National Insurance.

Essential resource

To help you work out how much you need to earn to cover your expenses, we have created a free cash flow Excel® spreadsheet. Download it at: www.essential-business.co.uk (click on 'Free Stuff' in left-hand menu).

If the business is costing £20,000 a year to run (adding up rent, rates, heat, light, marketing materials, computers, travel, raw materials, training and so on) then the business owner needs to earn £30,692 a year just to continue in his or her current lifestyle. That's £32.65 for each productive hour.

If you need £32.65 per hour and you're charging people £30 per hour, your lifestyle will get worse rather than better.

It is not advisable to use these figures as a way of working out what your hourly charge is going to be. Your hourly charge needs to reflect the value that your service offers to your customers. It may be worth £50 or £100 an hour. (See page 11.)

But it is advisable to work out what your minimum charge needs to be just to keep your head above water. That way, you won't be tempted to pitch your prices too low. And you'll have a benchmark against which you can measure what your business is really earning you.

What form of business?

There are over 4 million active businesses in the UK, and over 2 million of them are sole traders.

However, there are various forms under which a business can trade. Which has the right advantages for you?

Sole trader

People who work on their own, such as plumbers or consultants, are often **sole traders**. It is the simplest and quickest way of starting up a 'one-person business'. You can change to a limited company later.

Advantages

- Easy to set up
- You get to keep all the profits after tax
- Financial record keeping is usually simple
- National Insurance is low
- You keep your independence.

Disadvantages

- You must meet any business debts from your own income, savings or assets
- Lack of support – everything is down to you
- It may be more difficult to raise money to finance the business
- It is harder to sell the business or to pass it on.

Partnership

A **partnership** is a way that two or more people can run a business together; it is a legal entity recognised under law. It is similar to setting up as a sole trader, except that the costs and profits are

shared. **It is essential to draw up a legal partnership agreement** so that each partner knows their roles and responsibilities.

Advantage

- You can bring money into the business by introducing more partners.

Disadvantage

- Each partner is personally liable for *all* the business debts, even if the debt was caused by another partner.

Limited company

A **company** is separate from its owners. It is a legal entity in its own right and is liable for any debts, rather than the individuals who own the company. The legal protection given to owners of limited companies can outweigh the initial costs and ongoing running costs of setting up a limited company. A limited company can consist of one individual who is the director, or it can have many co-directors. You can bring additional money into a limited company, by issuing shares or allowing an individual to sell or transfer their interest in the business.

If you started as a sole trader, you may want to develop your image and change your trading style to that of a limited company as your business expands.

Advantages

- Trading as a limited company lends more credibility to the business
- It can be easier to raise money
- Selling your business as a limited company is easier
- Your liability is limited to the amount you have agreed to invest in the company, rather than any debts that are incurred from trading
- There are tax advantages for high earners in keeping money in the business
- It can offer business continuity when the original owners sell or retire.

Disadvantages

- Annual accounts can be more complicated to produce
- National Insurance payments are higher because you have to pay employers' and employees' National Insurance contributions, for both staff and directors
- If your turnover reaches a particular figure (over £6.5m in 2011) you will have to have an independent audit – another business cost.

For more on forming a company, see **The Essential Business Guide**.

Limited Liability Partnership

This trading status is like being both a limited company and a partnership. Make sure you have a members' legal agreement drawn up, just as you would with a general partnership, so that everyone is clear about their roles and responsibilities.

Advantages

- The members of a Limited Liability Partnership (LLP) are limited for losses or debts in a similar way to limited companies
- It has the flexibility of a partnership
- It is taxed on profits rather than on drawings.

Disadvantages

- You need to file annual accounts
- The LLP has to be registered at Companies House and will incur costs in doing this.

Community Interest Company

Community Interest Companies (CICs) are commercial companies that compete in the open market, but which have strong social aims.

Advantages

- CICs provide an additional type of legal status for businesses with social objectives
- The ability to incorporate using the traditional process for limited companies provides limited liability and increased flexibility
- CICs can raise additional capital through selling shares, but dividend payments are capped at a certain rate.

Disadvantages

- CICs do not benefit from any special tax status and generally speaking they have the same status as any other organisation regarding tax concessions or grants.

Essential tip

We suggest that you always take legal and financial advice about the advantages and disadvantages of the trading status relating to your own investment, personal status and nature of the business you are starting.

Essential contact

Companies House
0303 1234 500
www.companieshouse.gov.uk

Provides information and guidance booklets on the obligations of operating a limited company.

Essential reading

If you are interested in finding out more about social enterprise, you might wish to take a look at Robert Ashton's book, **How to be a social entrepreneur**.

www.robertashton.co.uk



Who do you need to inform?

You'll need to tell various people that you are now in business

Essential contact

To download the booklets, *Thinking of working for yourself?* and *Working for yourself – The Guide*, go to: www.hmrc.gov.uk/startingup

Essential resource

Most new business owners struggle with identifying which rules and regulations apply to them once they've started trading. To help you understand how to comply with the raft of business red tape applying to new start-ups, you can access a wide range of low cost, practical and easy to understand factsheets covering small business regulations at: www.scavenger.co.uk

HM Revenue & Customs

When you become self-employed, or start any kind of business, you must register with HM Revenue & Customs immediately, or face a fine.

If you are trading as a sole trader or partnership, contact the **Newly Self-employed Helpline** on **0845 915 4515**. They will issue you with form **CF1**.

HMRC will change your tax status and make arrangements for you to pay the correct National Insurance contributions.

If you are trading as a limited company, Companies House will contact Revenue & Customs and let them know that you have registered; they will send you form **CT41G**.

If you form a limited company, you must also register your payroll, even if you're the only person on it! Call the **New Employers' Helpline** on **0845 607 0143**.

National Insurance Contributions

There are two classes of National Insurance for the self-employed:

Class 2 – flat-rate contributions which are paid throughout the year and can be paid monthly by direct debit.

Class 4 – different amounts depending on your profits, paid annually when you fill in your tax return.

If you set up a company and become an employee of that company, you will pay employee's **Class 1** National Insurance Contributions on your income.

VAT

Register for **VAT** if you expect your business turnover (sales, fees, income) to exceed the level that makes registration compulsory (the amount varies from year to year, so check with your accountant or at www.hmrc.gov.uk).

Local Council and Trading Standards Office

Some forms of business require a **licence** to trade – for example: taxi firms, restaurants, hotels, waste management firms and pet shops. If this applies to you, inform your local authority. Check with your solicitor or local enterprise agency.

Professional Organisations

Check the professional organisations that regulate your industry; for example, Gas Safe for gas-boiler fitters.

A quick word about tax and NI

If you've been in full-time employment, you'll have got used to paying tax through the Pay as You Earn system. Your National Insurance Contributions (NICs) and the tax you owe are taken out of your pay before you receive it.

Businesses pay tax on their profits. How they do this is different for sole traders and for companies.

Sole traders

Sole traders pay income tax through the **self-assessment** system, so you will need to complete a tax return after the end of the tax year (5 April).

How much tax you have to pay is calculated on the profits your

Going into business means you have to plan ahead for various taxes in order to avoid nasty surprises

business earns. You will also pay Class 2 NICs at a flat weekly rate and Class 4 NICs as a percentage of your net profits. You will need to pay any tax due by 31 January after the end of the tax year covered by the return. So, in your first year, you must make sure you set this money aside. From your second year of trading, you'll probably have to make two payments 'on account' for the tax year before the return for each year is due. The dates for these payments are 31 January and 31 July.

Each payment on account is calculated as 50% of the previous year's assessed tax and Class 4 NIC liability. If the two payments amount to less than the tax you actually owe for the year, you'll need to make a balancing payment the following 31 January. (You'll get a repayment if you paid more.)

Companies

The tax a company has to pay the tax on its profits is called **corporation tax**. This is due nine months and one day after the company's year end.

You cannot just 'take money out' of your company. A company is a separate legal entity from its owner. You can only take money from the business either as salary or as dividends and both may be subject to income tax. If you take a salary, you are an employee of the business, so you must register the company with HMRC to operate a PAYE scheme; you will also pay Class 1 NICs if you earn over a certain amount.

Pre-trading expenditure

If you spend money relating to your business before you start trading, you may be able to claim these items against your profits. Check with your accountant.

NB: A company director who is an employee still needs to register for self-assessment.

A **dividend** is the distribution of a company's 'after tax profits' to its shareholders (ie, the profits that remain after it has paid its corporation tax). There are procedures to follow for paying dividends, so you may want to ask your accountant for advice.

Keep good records If you set up a robust financial record-keeping system from the start, you'll be able to:

- make informed decisions, such as whether you can afford new equipment or an extra member of staff
- tell how profitable your business is – or not
- prove that you run your business soundly if you need to apply for finance
- back up your case if HMRC have any queries about your finances.



Special sectors

In addition to the rules that govern all businesses, there are some businesses affected by special rules and regulations.

Businesses where special rules apply include:

■ The food business

If your business makes, handles or sells food, rules are in force to make sure it is safe to eat. The Food Standards Agency produces a pack called *Starting Up: Your First Steps To Running A Catering Business*; call **0845 606 0667** and visit **www.food.gov.uk** for more information. Also contact your local authority's environmental health service for advice (see **Essential contact**).

■ Events and entertainment businesses

Businesses which sell alcohol or provide entertainment or leisure services often need a licence. Contact your local authority for more information.

Essential contact

Your local authority website is a good place to start. Local authority websites are listed at **www.direct.gov.uk**

■ Health and care services

Businesses which look after people have to register with the relevant body. For example, in England, childminders and nurseries with the Office for Standards in Education (OFSTED), and care homes with the Care Quality Commission (CQC).

■ Businesses which transport people

Various rules apply to vehicles which carry passengers. Contact your local authority to find out the rules in your area (see **Essential contact**).

This is not an exhaustive list. There are many other activities that are regulated, including manufacturing, handling asbestos, money lending, street trading, boarding kennels, massage services and businesses that pierce the skin (such as tattooing, cosmetic piercing and acupuncture). Check with your local authority to find out whether your business might be affected.

Your local **Chamber of Commerce** can also be a very useful source of support and information.

MAILORDER

If you are looking to set up a mail order business, you need to understand the legislation that applies to: delivery of goods and returns; data protection; trades descriptions; product safety and labelling; price marking; sale of goods; unfair contract terms; unfair terms in consumer contracts; and business names. If you're buying a mailing list, make sure that the data was collected in a legal way.

There's more information about your responsibilities and legal obligations at:

- **Direct Selling Association**
www.dsa.org.uk
- **Direct Marketing Association**
www.dma.org.uk

What to look for in a franchise

An increasingly popular method of starting up in business is to buy a franchise.

This is a way of acquiring an 'off-the-peg' business, where the development of a product or service has, in theory, been done already.

At its best, buying a franchise can offer a relatively low-risk way of starting out in business, though the ultimate success or failure of the business will be due largely to your own efforts. Franchising is not in itself a guarantee of success.

How do franchises work?

A franchise is essentially a relationship between two parties (the 'franchisor' and the 'franchisee') who each benefit from entering into a business relationship with the other.

- The franchisor passes on their know-how, marketing and proven business systems in return for a payment.
- The franchisee makes a payment to the franchisor, usually in the form of an initial franchise or licence fee with ongoing payments made over the longer term.
- Franchise agreements usually stipulate territorial limits to prevent competition between franchisees, and quality standards to ensure that brand image is not compromised.

Before committing to a franchise agreement you should:

- Visit a franchise exhibition to explore opportunities, and obtain advice and information.
- Obtain as much information as possible from the franchisor and be aware that financial illustrations are just projections and may be optimistic.
- Talk to as many other franchisees as possible to hear their experiences, both good and bad, to provide evidence that it is possible to make the business successful.
- Obtain proof that the product or service is viable and can be sold profitably.
- Ask for proof that the support and training provided by the franchisor exists, and will be of sufficient quality to enable you to establish the business.
- Contact the bank to see if it will provide support to finance the franchise – it will investigate the franchisor using its own checking systems.
- Seek advice on the franchise agreement from a solicitor who will advise on the best timing for signing the agreement. This should be conditional on obtaining suitable premises (if applicable) and finance.
- Take advice from an accountant with regard to financial projections.

5 steps to choosing a franchise

1 Investment

How much can you afford to put into the business? What levels of borrowing will you consider or be offered?

2 Suitability

Is the business going to suit the way you like to live your life?

3 Industry

Is the industry going to be there in 5 years' time or is it a passing phase?

4 Advice

Consider taking some legal, commercial and financial advice.

5 Compare the best

Do plenty of research to ensure you are making the right decision for your future.



Spreading the word

There are many ways to let people know you exist. Here are just a few:

Advertising: the obvious choice, but it's expensive, and tends to be better at brand building than getting people to buy. Can you afford it?

Brochures and leaflets: These can be very good or very bad. The temptation is to try to write them to tell everyone everything. They often end up telling nobody anything useful.

Business cards: A must for many business owners. Make sure they reflect your image. If your image is glossy, make sure your cards are, too.

Lists: These can work, but make sure your customers expect to look for your type of business in the particular list you choose, or they won't.

Press releases: Good news: they're free! (Apart from your time.) Make sure you have an interesting story to tell, and a strong headline.

Direct mail: Whether by snail mail or email, this is easily measurable, but you may not get an immediate response. Be careful not to breach data protection laws.

Networking: Again, it's free, and well worth the time for many businesses. However, don't treat it as a sales pitch. Expect to give generously to other businesses for a while before you start reaping the rewards.

Once you've decided who your customers should be, what you want to sell them, and where you will position yourself in relation to your competitors, what next?

Surely you just sketch out a quick business card and a flyer or two, and nip down to the local printers, right? Wrong. Sorry, but it's very important that you plan first what it is that you want to say to your customers, and how best to say it.

The ideal way to plan your promotional materials is to put your business plan together first. Sounds odd, but it works: Once you have decided exactly where you want to get to in your business, and how you plan to get there, it becomes much more obvious who you should be communicating with, and how.

For example, a caterer who decides to target office workers with sandwiches and snacks could tell them about her service by distributing leaflets, giving introductory offer coupons, and setting up an online ordering system on her website.

A second caterer, targeting the management at the same companies, and offering platters of sandwiches, cakes and fruit for large meetings, could take a different approach.

He might write to the decision-makers, enclosing a glossy brochure and some menu options, and offer the managers a free tasting session so they can sample the products.

A third caterer, offering exactly the same type of products to schools and hospitals, might work on meeting the requirements to be added to a preferred supplier list, or perhaps submit a bid or tender document to win a particular contract.

All three caterers could be offering identical products. However, because they have chosen different customer groups, they need to promote themselves in very different ways.

Essential reading

The UK Small Business Marketing Bible

by David Frey

A real treasure trove of a book which lists pages and pages of proven ways to let your customers know that you're open for business.



Successful selling

It's obvious that nobody will buy from us if we don't tell them that our business exists. So why do so many of us dread the sales talk?

The first problem is that we are likely to get some rejections. Remember, though, it's your product or service that potential customers are rejecting, not you personally. See your business as separate from yourself. This is not easy to do.

The second problem is that most of us don't know how to start selling. That is understandable, too. Even the word has a scary ring to it for most of us.

There are some general rules, though, that can help you on your way:

Understand your customers. Work out what they need, and what problems you can solve for them. If you don't know, ask. In other words, research. Most people like to be asked, as long as you keep the 'finding out' completely separate from selling. Finding out will help you to present customers with a solution to a problem, rather than just a product or service that you're selling.

Gather information. Knowledge is power. The more you know about your potential customers and their marketplace, the better. You can gather information as you network, and by keeping your ear to the ground. It is surprising how much you can find out through contacts, and you can fill the important gaps with research.

Prepare beforehand. Have an agenda, even if it is in your head. What is the minimum you want out of this meeting or phone call? What is the maximum you can expect? What are you prepared to give away? In what order will you give it, and what can you expect in return? What will you do if you and your potential customer can't reach an agreement?

Ask questions. Listen to the answers. Listening is far more important than talking. Most of us aren't very good at it. Listen to people, and they will tell you what they need. That gives you the chance to tell them how you can solve their problem. If they raise an objection, see it as positive: it means they are interested. Reinforce the ways you can solve their problem.

Read the signals. If someone is ready to buy, ask for the sale. Don't let the moment pass, or they may change their minds. Once you have closed the sale, leave. Don't give people time to think of objections.

Follow these rules, and you'll be much better at selling, whatever the situation.

Essential reading

Resistance is Useless
by Geoff Burch

This funny yet informative book is an Essential Business favourite.

It explains why selling is so crucial to business and how to acquire and perfect the art.

Essential support

Essential resource

Business Answers from Cobweb

If you've got a question about your business, whether it's to do with starting up, researching your market, finding support or advice in your local area, accessing micro-business finance other than from the banks, sourcing suppliers or just a question about business in general, then drop us a line and one of our research team will try and help. Your questions (and our answers) will remain confidential at all times.

E-mail our team at answers@cobwebinfo.com

cobweb
INFORMATION FOR BUSINESS

There are lots of people out there to help you start and run a great business. Here are just some which might be useful for you and there are lots more listed on our website at www.essential-business.co.uk

British Chambers of Commerce
65 Petty France
London SW1H 9EU
0207 654 5800
www.britishchambers.org.uk
'The ultimate business network.' We've always been members of our local Chamber and find them to be a great support and source of information.

Business in the Community
137 Shepherdess Walk
London N1 7RQ
0207 566 8650
www.bitc.org.uk
The aim is to 'to inspire, challenge, engage and support business in continually improving its positive impact on society'. People after our own heart.

Business Link
www.businesslink.gov.uk
The Business Link website is a good source of information about legislation, compliance and public sector procurement.

Companies House
Crown Way, Maindy
Cardiff CF14 3UZ
0303 1234 500
www.companieshouse.gov.uk
All limited companies in the UK are registered at Companies House. So if you're aiming to start up a limited company, this is where to begin the process.

Department for Business, Innovation and Skills (BIS)
(previously DTI and BERR)
1 Victoria Street
London SW1H 0ET
0207 215 5000
www.bis.gov.uk
A valuable source of information for businesses of all sizes.

Department of Work and Pensions
1-11 John Adam Street
London WC2N 6HT
0207 712 2171
www.dwp.gov.uk
Information on services and benefits for people of working age, including those starting a business.

HM Revenue & Customs
• **National Advice Service (VAT)**
0845 010 9000
www.hmrc.gov.uk
• **Registration helpline for self-employment**
0845 915 4515
• **New employer's helpline**
0845 607 0143
www.hmrc.gov.uk

The Prince's Initiative for Mature Enterprise (PRIME)
Astral House
1268 London Road
London SW16 4ER
0800 783 1904 (Helpline)
www.prime.org.uk
Helping people over 50 to start their own businesses and become self-employed.

The Prince's Trust
18 Park Square East
London NW1 4LH
0800 842 842
www.princes-trust.org.uk
For young people aged between 18 and 30 years old who want to start or develop their own business.

www.essential-business.co.uk

Ready to get started?

Essential Business and Cobweb want to help you run your business better. We are constantly adding new products and resources to our websites – here are a few that might be of interest.

BEFORE YOU BEGIN **FREE**

This free workbook pdf is the perfect place to start your business journey. Its questions and worksheets are designed to help you become clear about exactly what you want your business to deliver.



Inside the pdf there is a money-off voucher towards our **Start Your Business Step By Step** workbook should you choose to take your planning to the next step.

START YOUR BUSINESS STEP BY STEP

This clearly written and designed workbook and worksheets are designed to help you set up your business in the way that is right for you, and put together a practical plan so that you know exactly what you're going to do and how you're going to do it.



THE ESSENTIAL BUSINESS GUIDE

Our award-winning **Essential Business Guide** is packed with information and ideas to help you build and grow your business legally and profitably – an Essential Business bestseller. The only business book to win a Plain English Award, you'll keep this guide on your desk and return to it time and again.



ESSENTIAL BUSINESS STEPS

Our free weekly email contains the vital steps and skills for you to build a great business. Download the accompanying pdfs which build into your personal business action plan.

Find out more about Essential Business products at our website: www.essential-business.co.uk

BETTER BUSINESS MAGAZINE

This bi-monthly subscription-based journal is perfect for small and independent business owner-managers, freelancers, consultants and business advisers.

For more details go to: www.better-business.co.uk





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