

Mike Sole's Beginner's Guide To Starting A Business



Starting a business for the first time can be a daunting experience.

At Batchelor Coop we have helped set up many businesses giving us the skills and experience to make the process as straightforward as possible for you.

By coming to see us early on in the process we can help ensure that you have considered all of the issues and then guide you through the paperwork and registration forms that may be required.

You may be unsure whether you should trade as a limited company or sole-trader. We can help you make the right choice.

If you need assistance with setting up a bookkeeping system we can help with a choice of manual cashbooks, spreadsheet or Sage system. We can even do the bookkeeping for you if you prefer.

Whatever you are thinking of doing make sure that one of the first things you do is speak to us.

This guide covers the following topics:

1. Starting up in business
2. Could I really make a go of it?
3. What business structure shall I use?
4. The business plan
5. Raising finance
6. Insuring your business

Starting Up In Business

It is the ambition of many people to run their own business. Some may have been made redundant and find themselves with free time and financial resources. Others make the decision to start up in business to be more independent and obtain the full financial reward for their efforts.

Whatever the reason, a number of dangers exist. Probably the greatest concern is the possibility of business failure.

Read on for guidance on some of the factors which need to be considered before trading begins.

This factsheet cannot cater for every possibility and any decisions should be supported by professional advice.

Initial Considerations

In order to make your business a success there are a number of key factors which should be considered:

- § commitment - starting a business is demanding. Determination and enthusiasm are essential
- § skills - you will need managerial, financial, technical and marketing skills. If you do not have these skills personally, they can be found in a partner or employee, or acquired through training
- § your product or service should have a proven or tested market, but must not conflict with the patent or rights of an existing business.

In addition to these general considerations there are a number of more specific matters.

The business plan

The business plan is the key to success. If you need finance, no bank manager will lend money without a sensible plan.

Your plan should provide a thorough examination of the way in which the business will commence and develop. It should describe the business, product or service, market, mode of operation, capital requirements and projected financial results.

Business structure

There are three common types of business structure:

§ Sole trader

This is the simplest form of business since it can be established without legal formality. However, the business of a sole trader is not distinguished from the proprietor's personal affairs.

§ Partnership

A partnership is similar in nature to a sole trader but because more people are involved it is advisable to draw up a written agreement and for all partners to be aware of the terms of the partnership. Again the business and personal affairs of the partners are not legally separate. A further possibility is to use what is known as a Limited Liability Partnership (LLP).

§ Company

The business affairs are separate from the personal affairs of the owners, but there are legal regulations to comply with.

The appropriate structure will depend on a number of factors, including consideration of taxation implications, the legal entity, ownership and liability.

Business stationery

There are minimum requirements for the contents of business stationery, both paper and electronic, which will depend on the type of business structure.

Books and records

All businesses need to keep records. They can be maintained by hand or may be computerised but should contain details of payments, receipts, credit purchases and sales, assets and liabilities. If you are considering purchasing a computer to maintain your records, obtain professional advice.

Accounts

The books and records are used to produce the accounts. If the records are well kept it will be easier to put together the accounts. Accounts must be prepared for HMRC and if a company is formed there are strict legal requirements as to their format.

A company and a LLP may need to have an audit and will need to make the accounts public by filing them at Companies House within a strict time limit.

Taxation

When starting in business, taxation aspects must be considered.

§ Taxation on profits

The type and rate of taxation will depend on the form of business structure. However, the taxable profit will normally differ from the profit shown in the accounts due to certain expenses which are not allowed for tax purposes and the timing of some tax allowances.

§ National insurance (NI)

The rates of NI contributions are generally lower for a sole trader or partnership than for a director of a company but the entitlements can also differ. But in a company, it may be possible to avoid NI by paying dividends rather than salary.

§ Value added tax (VAT)

Correctly accounting for VAT is an essential part of any business and neglect may result in a significant loss.

When starting a business you should consider the need to register for VAT. If the value of your taxable sales or services exceeds the registration limit you will be obliged to register.

Expect a visit from HMRC within eighteen months of registration. This inspection of your records ensures VAT is being properly accounted for.

Employing others

For the business to get off the ground or to enable expansion, it may be necessary to employ staff.

It is the employer's responsibility to deduct income tax and national insurance and to account for student loan deductions. The balance must then be paid over to HMRC. Payroll records should be carefully maintained.

You will also need to be familiar with employment law.

Premises

There are many pitfalls to be avoided in choosing a property. Consideration should be given to the following:

- § suitability for the purpose
- § compliance with legal regulations
- § local by-laws
- § physical restrictions such as access.

Insurance

Comprehensive insurance for business motor vehicles and employer's liability insurance are a legal requirement. Other types of insurance such as public liability, consequential loss, business assets, Keyman and bad debts should be considered.

Pensions

Putting money into a pension scheme can be a very attractive way of saving for retirement because of the favourable tax rules. Many companies have to provide access for their employees to a stakeholder pension.

How We Can Help

Whilst some generalisation can be made about starting up a business, it is always necessary to tailor the strategy to fit your situation. Any plan must take account of your circumstances and aspirations.

Whilst business success can never be guaranteed, professional advice can help to avoid some of the problems which befall new businesses.

We would welcome the opportunity to assist you in formulating a strategy suitable for your own requirements. We can also provide key services such as bookkeeping, management accounts, VAT return and payroll preparation at an early stage.

Could I Really Make a Go of it?

Many people wonder deep down if they could really make a go of running their own business. It is not for everyone but the following is a list of attributes that successful business owners have. You do not need all of these characteristics but 'go-getters' have the majority of the qualities.

Qualities Needed For Success

To help you decide whether or not you are cut out for the enterprise culture, do you see in yourself any of the following? Are you:

- § Positive - decisive and enthusiastic to succeed?
- § Proactive - do you go out to get things or do you let them come to you?
- § Determined - have you clearly-defined personal and business goals?
- § Hardworking - do you mind being tied to the business seven days a week?
- § Leadership - are you able to get the best from your colleagues but discipline them when necessary?
- § Opportunist - will you see openings in your market and develop products for it?
- § Self-critical - are you able to review your own performance and welcome advice from others?
- § Flexible - could you change your products or methods quickly when necessary?

Erratic Spending Power

You must appreciate that in becoming self-employed you will lose the comfort of having a regular income. There will be times when you will have very positive cash flow but also times when money is short. Therefore during times of shortage you must be prepared to do without some luxuries for both yourself and your business.

Making Sure the Family Is With You

Starting a business is not easy and your family must both be on your side and also lend you support. Initially, especially in the early days, you could often find yourself away from your family for long, unsocial hours. Their understanding can be invaluable.

It can help to get your family involved in aspects of the business. There may be many jobs that can be easily delegated to them. It may also help on the financial side that they understand why there may be a tight control of the family finances.

Identifying Your Skills

You may be considering self-employment to exploit your talents. Running a business needs many skills. You should identify those things you are good at and those with which you will need help. You may wish to employ people with the necessary skills or, alternatively, consider contracting out certain tasks.

Researching Your Market

You must research as much as possible about the marketplace, your potential customers and competitors. It is vital to have knowledge of these areas when considering whether you have a potentially successful business proposition. You may wish to use published material or ask people who are likely to buy from you, either directly or by market survey.

You will need to find out about:

- § Your target market - its size and whether it is expanding or contracting.
- § Your customers - who are they? Where are they? What do they want? How much will they pay?
- § Your competitors - what are their products, prices and market share?

How We Can Help

You will need to consider all the above very seriously, involve your family and make a trial business plan.

We can help you to plan and answer any questions you may have.

What Business Structure Shall I Use?

Having made the decision to be your own boss, it is important to decide the best legal and taxation structure for your enterprise. The most suitable structure for you will depend on your personal situation and your future plans. The decision you make will have repercussions on the way you are taxed, your exposure to creditors and other matters.

The possible options you have are as follows.

Sole Trader

This is the simplest and cheapest way of trading. There are only a few formalities to trading this way, the most important of which is informing HMRC. You are required to prepare accounts each year and they will form the basis of how you pay your tax and national insurance. Any profits generated in this medium are automatically yours. The business of a sole trader is not distinguished from the proprietor's personal affairs so that if there are any debts, you are legally liable to pay those debts down to your last worldly possession.

Partnership

A partnership is an extension of being a sole trader. Here, a group of two or more people will come together, pool their talents, clients and business contacts so that, collectively, they can build a more successful business than they would individually. The partners will agree to share the joint profits in pre-determined percentages. It is advisable to draw up a Partnership Agreement which sets the rules of how the partners will work together. Partners are taxed in the same way as sole traders, but only on their own share of the partnership profits. There is no restriction on your exposure to business creditors. Indeed, you are 'jointly and severally' liable for the partnership debts, so that if certain partners are unable to pay their share of the partnership debts then those debts can fall on the other partners.

Limited Company

A limited company is a separate legal entity from its owners. It can trade, own assets and incur liabilities in its own right. Your ownership of the company is recognised by owning shares in that company. If you also work for the company, you are both the owner and an employee of that company. When a company generates profits, they are the company's property. Should you wish to extract money from the company, you must either pay yourself a dividend, as an owner, or a salary, as an employee. The advantage to you is that you can have a balance of these two to minimise your overall tax and national insurance liability. Companies themselves pay corporation tax on their profits after paying your salary but before your dividend distribution. Effective tax planning requires profits, salary and dividends to be considered together.

There are many advantages as well as disadvantages to operating through a limited company. We have a separate factsheet on 'Incorporation' which considers the relative merits as well as the downsides of operating as a company.

New companies can be purchased relatively cheaply in a ready-made form - usually referred to as 'off the shelf' companies. There are additional administrative factors in running a company, such as statutory accounts preparation, company secretarial obligations and PAYE (Pay as You Earn) procedures. A big advantage of owning a limited company is that your personal liability is limited to the nominal share capital you have invested.

Limited Liability Partnership

A limited liability partnership is legally similar to a company. It is administered like a company in all aspects except its taxation. In this, it is treated like a partnership. Therefore you have the limited liability, administrative and statutory obligations of a company but not the taxation and national insurance flexibility. They are particularly suitable for medium and large-sized partnerships.

Co-operative

A co-operative is a mutual organisation owned by its employees. One example of such an organisation is the John Lewis Partnership. These structures need specialist advice.

How We Can Help

We will be happy to discuss your plans and the most appropriate business structure with you. The most appropriate structure will depend on a number of factors including consideration of taxation implications, the legal entity, ownership and liability.

The Business Plan

Every new business should have a business plan. It is the key to success. If you need finance, no bank manager will lend money without a considered plan.

It is one of the most important aspects of starting a new business. Your plan should provide a thorough examination of the way in which the business will commence and develop. It should describe the business, product or service, market, mode of operation, capital requirements and projected financial results.

Why Does a Business Need a Plan?

Preparing a business plan will help you to set clear objectives for your business and clarify your thinking. It will also help to set targets for future performance and monitor finances and profitability. It should help to provide early warning for when you might need to reconsider the plan.

Always bear in mind that anyone reading the plan will need to understand the essentials of your business quickly and easily.

Contents

The business plan should cover the following areas.

- § Overview. An overview of your plans for the business and how you propose to put them into action. This is the section most likely to be read by people unfamiliar with your business so try to avoid technical jargon.
- § Description. A description of the business, your objectives for it and how you plan to achieve them. Include details of the background to your business for example how long you have been developing the business idea and the work you have carried out to date.
- § Personnel. Details of the key personnel including you and any external consultants. You should highlight the skills and expertise that these people have and outline how you intend to deal with any weaknesses.
- § Product. Details of your product or service and your Unique Selling Point. This is exactly what its name suggests, something that the competition does not offer. You should also outline your pricing policy.
- § Marketing. Details of your target markets and your marketing plan. This may form the basis for a separate, more detailed, plan. You should also include an overview of your competitors and your likely market share together with details of the potential for growth. This is usually a very important part of the plan as it gives a good indication of the likely chance of success.
- § Practices. You will need to include information on your proposed operating practices and production methods as well as premises and equipment requirements.
- § Financial forecasts. The plan should cover your projected financial performance and the assumptions made in your projections. This part of the plan converts what you have already said about the business into numbers. It will include a cash flow forecast which shows how much money you expect to flow in and out of the business as well as profit and loss predictions and a balance sheet. Detailed financial forecasts will normally be included as an appendix to the plan. As financial advisers we are particularly well placed to help with this part of the plan.
- § Financial requirements. The cash flow forecast referred to above will show how much finance your business needs. The plan should state how much finance you want and in what form. You should also say what the finance will be used for and show that you will have the resources to make the necessary repayments. You may also give details of any security you can offer.

The Future

Putting together a business plan is often seen as a one-off exercise undertaken when a new business is starting up.

However the plan should be updated on a regular basis. It can then be used as a tool against which performance can be monitored and measured as part of the corporate planning process. There is much merit in this as used properly it keeps the business focused on objectives and inspires a discipline to achieve them.

How We Can Help

We can look forward with you to help you put together your best possible plan for the future.

Raising Finance

Who Needs Finance?

Every business from its commencement and through its development and growth will need finance.

But what type of finance is best suited to the development of your business, and who should you approach for funding?

We provide guidance below on types of finance available and outline the planning required before approaching any lending institution.

Planning for Growth

Is finance required?

Finance is very often necessary but consider what it will entail. Additional funding requires a commitment in terms of capital and interest payments. Embarking on this course of action must therefore be planned carefully.

The business must be capable of sustaining any additional commitment to growth or expansion, and consideration will need to be given to effects on manpower, materials and space.

Tapping existing resources

Before seeking outside finance, a business must consider whether it could improve its working capital from within.

Particular attention should be given to stock and debtors to ensure that both are kept to a minimum. Consider how long it takes to bill customers and collect debts and look at ways to reduce this time.

If there are periods of time when surpluses of cash arise, review your affairs to try and ensure these are being used to generate income by investing on temporary short term deposit.

We can advise you on all these matters.

Business plan

Assuming external funding is necessary, planning is essential in achieving success. A well drawn up business plan not only crystallises in your own mind the nature of the project and the timing of any required funding, but is vital to any lending institution. They are unlikely to provide any assistance without a properly drawn up business plan.

The plan will include details of:

- § the objectives and aims of the business
- § the purpose of the required funding
- § the business ownership and history
- § management and responsibilities
- § products and market share
- § sales plan and strategy
- § the financial position of the business with detailed cash flow forecasts and past accounts.

Types of Finance

General

Finance is available in many forms, but it is important to make sure that it is right for your business. Onerous terms and inflexibility can often hinder a growing business.

The more obvious sources of finance include bank overdrafts and medium to long term loans and mortgages, but rates of interest can vary considerably. Therefore we advise you to consult with us before making your final decision.

Specific

Specific methods of finance are available for acquiring assets or releasing cash from debtors. Carefully consider the options available which include:

- § leasing assets
- § hire purchase
- § outright purchase
- § debt factoring
- § invoice discounting.

Each method of funding has advantages and disadvantages including implications for tax purposes.

Other

Other means of finance may be available for your business from government sources, through the issue of shares or even your own pension scheme.

Government assistance can be in the form of grants, concessionary loans or loan guarantees, particularly if your business is in the manufacturing sector or creates new jobs. Other grants may be available on a regional or local level.

Raising finance by issuing shares may be another option to consider.

Security

Whatever form of finance is offered, the lender will always require some form of security. However the level of security sought may vary - beware the lender asking for unreasonable guarantees.

Fixed and floating charges

Most bank loans and overdrafts are secured by way of a fixed charge over land and buildings with floating charges over other assets of the company such as stock and debtors.

Personal guarantees

For some businesses little security may be available because of insufficient assets. Consequently the security will be given in the form of personal guarantees.

Take extreme care before signing these guarantees as they can be difficult to amend at a later stage and many have suffered as a consequence.

In particular, personal guarantees are best if they are limited by time or amount. Unlimited guarantees are the most dangerous.

General

It may be possible to use other assets as collateral such as life insurance policies or by taking a second mortgage over your home.

Whatever the means of security pledged, it should be carefully considered and advice sought.

How We Can Help

The means by which finance is obtained will vary enormously according to:

- § the amounts required
- § the nature of the business
- § the risk exposure to the lender
- § the period for which finance is required.

Accordingly whilst some generalisations apply, individual circumstances require specific consideration. Time invested in formulating a funding strategy, whilst not guaranteeing success, will provide a structure to guide the growing business.

Our experience and contacts can enable you to achieve the means to help your business grow.

We would welcome the opportunity to assist you in formulating a business plan and obtaining any necessary finance.

Sources of Finance

The financing of your business is the most fundamental aspect of its management. Get the financing right and you will have a healthy business, positive cash flows and ultimately a profitable enterprise. The financing can happen at any stage of a business's development. On commencement of your enterprise you will need finance to start up and, later on, finance to expand.

Finance can be obtained from many different sources. Some are more obvious and well-known than others. The following are just some of the means of finance that are open to you and with which we can help.

Bank Loans and Overdrafts

The first port of call that most people think about when trying to obtain finance is their own bank. Banks are very active in this market and seek out businesses to whom they can lend money. Of the two methods of giving you finance, the banks, especially in small and start-up situations, invariably prefer to give you an overdraft or extend your limit rather than make a formal loan. Overdrafts are a very flexible form of finance which, with a healthy income in your business, can be paid off more quickly than a formal loan. If, during the period you are financing the overdraft, an investment opportunity arises, then you could look to extend the options on your overdraft facility to finance the project.

Many businesses appreciate the advantages of a fixed term loan. They have the comforting knowledge that the regular payments to be made on the loan make cash flow forecasting and budgeting more certain. They also feel that, with a term loan, the bank is more committed to their business for the whole term of the loan. An overdraft can be called in but, unless you are failing to make payments on your loan, the banks cannot take the finance away from you.

Many smaller loans will not require any security but, if more substantial amounts of money are required, then the bank will certainly ask for some form of security. It is common for business owners to offer their own homes as security although more risk-averse borrowers may prefer not to do this. Anyone offering their house as security should consult with any co-owners so that they are fully aware of the situation and of any possible consequences. Another source of security may be the small firms loan guarantee. Start-up business unable to provide any other form of security may be able to get a guarantee for loans up to £250,000. Under the scheme, you pay a 2% premium on the outstanding balance of the loan, and in return, the government guarantees to repay the bank (or other lender) up to 75% of the loan if you default.

Savings and Friends

When commencing a new business, very often the initial monies invested will come from the individual's personal savings. The tendency of business start-ups to approach relatives and friends to help finance the venture is also a widespread practice. You should make it clear to them that they should only invest amounts they can afford to lose. Show them your business plan and give them time to think it over. If they decide to invest in your business, always put the terms of any agreement in writing.

Issue of Shares

Another way of introducing funds to your corporate business is to issue more shares. This is always a welcome addition to business funds and is also helpful in giving additional strength to the company's balance sheet. However, one needs to consider where the finance is coming from to subscribe for the new shares. If the original proprietor of the business wishes to subscribe for these shares, then he or she may have to borrow money in a similar way to that discussed above. Typically, however, shareholders in this position are often at the limit of funds that they can borrow. Therefore, it may be necessary to have a third party buy those shares. This may mean a loss of either control or influence on how the business is run. An issue of shares in this situation can be a very difficult decision to make.

Venture Capital

Approaching venture capital houses for finance will also mean an issue of new shares. The advantage of going to such institutions is the amount of capital they can introduce into the business. The British Venture Capital Association offers useful free publications (www.bvca.co.uk). Further information can be obtained from the British Business Angels Association (www.bbbaa.org.uk). Because of the size of their investment, you can expect them to want a seat on your Board. They will also make available their business expertise which will also help to strengthen your business, although inevitably this will come with an additional pressure for growth and profits.

On a smaller scale, the government has introduced various tax-efficient schemes for entrepreneurs to invest in growing businesses. The current schemes available are called the Enterprise Investment Scheme (EIS) and Venture Capital Trusts. We have separate factsheets providing detail in this area. They are similar schemes but complementary to one another. The former allows an individual to invest directly in your company and the latter allows an individual to invest in a fund which, in turn, will invest in a portfolio of venture capital investments. The investors will get 20% and 30% income tax relief respectively on any monies invested.

Another useful element of the EIS is that it allows any person with capital gains to defer these gains by investing into a company requiring venture capital. This deferral relief, unlike the income tax relief described above, which is subject to more stringent conditions, is available to controlling shareholders of such growing companies. If your company requires finance and you have a capital gain, we can advise on how to use the deferral relief effectively.

Retained Earnings and Drawings

Since ultimately the well-being of a business is connected with the cash flow of that enterprise, if a proprietor would like more liquidity, then it is sometimes necessary to re-examine the amount of money they are withdrawing from the business for their personal needs. In this way, additional funds earned by the business can be retained for future use.

Other Finance

Other possible sources of finance are outlined below.

Factoring

Factoring provides you with finance against invoices that your customers have not yet paid. Typically you can receive up to 85% of the value of the invoice immediately and the balance (less costs) when the customer pays.

Hire Purchase (HP)

This is used to finance the purchase of equipment. Your business buys the equipment but payments of capital and interest are spread over an agreed period.

Leasing

This is a method of financing equipment you do not need to own. It is often used for vehicle finance. The equipment is rented rather than owned and the rental payments spread over several years. There can also be the option to fix maintenance costs as part of the agreement (contract hire).

Matching

It makes sense to match the finance you are seeking to the purpose for which it will be used.

Working capital	à	overdraft or factoring
Equipment and vehicles	à	fixed-term loan, HP or leasing
Property	à	long-term mortgage
Development / start up	à	investment finance.

How We Can Help

We have the expertise and the contacts to help you at all stages of your business development and to help you finance the business along the way. If you have any questions or proposals, we would be happy to discuss them with you.

Insuring Your Business

When starting a new business, you will no doubt recognise the need for insurance. It can provide compensation and peace of mind should things go wrong but can also represent a significant cost.

In this factsheet we consider the different types of insurance you need to consider.

Compulsory Insurance

Employers' liability insurance is compulsory to cover your employees. By law you must have at least £5 million of cover although a minimum of £10 million is now provided by most policies. You must display the certificate of insurance in the workplace. If your business is not a limited company, and you are the only employee or you only employ close family members, you do not need compulsory employers' liability insurance. Since 28 February 2005, limited companies with only one employee, where that employee also owns 50% or more of the company's shares, have also been exempt from compulsory employers' liability insurance.

Motor vehicles liability insurance is also compulsory and must cover at least third party, fire and theft.

Optional Insurance

Other categories of insurance are optional and a decision as to whether or not you need cover under any given heading will depend on the nature of your business and an assessment of the risks.

Public liability

Although strictly this is not compulsory you will almost certainly feel that you need cover under this heading. It covers claims for damages to third parties.

Property

You can think about limiting cover to specific risks such as fire and flood or providing more general cover. Consider the level of cover you would need for the premises (if you own the building), equipment and stock. If you rent your premises then you should check that the landlord has the appropriate cover.

Theft

If your business does not involve expensive items of equipment then you might to decide to pass on this one at least initially. If you do decide to provide cover for theft then an insurer will require a reasonable minimum level of security.

Professional indemnity

This is only likely to be necessary if you give advice which could make you liable. It protects against any loss suffered by your customers as a result of negligent advice. In some professions it is compulsory – examples being the law, accountancy and financial services. However it is common in other sectors such as computer consultancy and publishing.

Business interruption

This covers compensation for lost profits and extra costs if your business is disrupted due to say a fire. It is also referred to as 'consequential loss' insurance.

Key man

A small business is often dependent on key members of staff. What would happen if they became seriously ill or died? Do you need to consider insurance cover to pay out in such a situation?

Specialised insurance

A whole host of different policies cover a range of specialist situations – for example engineering insurance and computer policies.

Working from Home

If you are planning to start your new business from home then don't assume that your normal household insurance will be enough. It will not usually cover business risks. It is possible to obtain special 'working from home' policies.

Shopping Around

It may be stating the obvious but it is important to shop around to get the best deal. You should obtain several quotes and always be wary of cheap deals. A personal recommendation may be the best way to decide.

Level of Cover

Again it may be stating the obvious but too much cover and your cash flow will suffer, too little and the consequences can be catastrophic.

Consider the level of cover you need. With buildings and equipment make sure you are covered for the full replacement cost.

If there is to be an excess on any policy make sure that it is set at a sensible level.

How We Can Help

Please talk to us if you would like any further help on insuring your business.