

**97 POINTS
TO CONSIDER
WHEN SETTING
UP A NEW BUSINESS**

By

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INTRODUCTION

There are many of us every year who decide to set up our own business for whatever reason.

Maybe its to be your own boss,
Maybe you like the freedom,
Maybe you can be more creative,

Or

you expect to make more money.

The ideas and processes presented in this booklet will benefit you in the following ways:

- You will have a checklist of the important tasks
- You will have put your idea into perspective
- You can learn from other people's mistakes
- You will have given your idea some credence

This should help to lesson some of the avoidable errors on the way, but will not provide **all** the answers, as every business is different, run by individual personalities, so do not expect a quick fix.

This booklet should be used as a guide/ an aide memoir to remind you of the key events needed in coming to a decision about setting up a new business.

However at the end of the day it will be/is **your** business:

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So you want to start a business?

1. To launch a new business successfully require a particular type of individual. It will help if you are:-

- Ambitious
- Clear
- Committed
- Common Sense
- Competent
- Desire
- Determined
- Driving
- Persuasive
- Resilient
- Visionary
- FOCUSSED

2. Starting your own business can be like climbing a mountain - you start with the desire, and the exhilaration of getting going. The obstacles, the challenges, the successes, the real stories, the could do better. The real stories, need a sound business strategy for success.

The Idea

3. Your most important asset in establishing a sound business is your idea, this is the springboard for success.

4. However to put ideas into action takes time and careful planning. Take time to do this properly. A half based idea not thought through can be a disaster.

5. You have the idea - what do I do now?

How can I tell if my idea could work in business?

The Business Plan

6. First step is to put together a business plan. This is a plan for the future and the preparation will help you focus on just what you need to do to start the business and where you want to go with this venture.

7. Preparing a business plan has many advantages, not least that you will have to think carefully about every aspect of the business. The steps taken in this process will maximize your chance of success if taken seriously.

8. A business Plan should include the following key topics: -

- Executive Summary
- Index
- The Product or service
- The market
- Pricing strategy
- Business Structure
- Premises and location
- Management & CV's
- Financial Information
 - Cash Flow
 - Profit Forecasts
 - Capital requirements
 - Assumptions underlying the plan

9. There are plenty of support available in the preparation of a business plan.

10. These include asking your own bank for a business plan pack. This will normally include a computer disc, which asks you questions about your business. This will cover the key topics above and from your answers produce a plan.

11. Information packs or support is also available from Accountants Solicitors and Business Links.

12. The most important part of any plan is **not** the figures.

13. The words you use to describe your business vision really tell the story. This is the part that is spoken from within you, only you know this so spend time developing, say what you see and want.

14. This then tells your bank or advisors the real business.

15. The financial figures are developed from your vision, not the other way around.

16. **Executive Summary** is a resume of the plan itself. It is the last section to be written and it will highlight why you want to do this business, the enthusiasm for the business should definitely be evident. The reader should be drawn into that enthusiasm. This can be the one of the most important sections, always bear in mind, who is going to read this. If it is going to a bank or venture capital company to raise finance then it must demonstrate the attractiveness of the business. Do not however make this too long, a second page should be adequate.

17. **Index** makes it easy for a third party to find the way around the document.

18. **The service or product.** Here provides the detail of what the business is to provide and why you consider it will be successful. The main characteristics and perhaps unique selling points that sets you out from the rest. This is where the idea should take on an identity, and be specific about all aspects.

19. **The market.** Provide some information about the marketplace you are just about to enter. Demonstrate your understanding of that, its size, what market share you want and how that can be achieved. This should therefore include details of your marketing strategy, how are you going to penetrate the market, advertising, promotions etc. Have you any competitive advantage, maybe because you are late into the market you are taking advantage of the latest technology, putting you ahead well say so.

20. **Pricing strategy.** How are you going to price your business, have you considered the effect upon your gross margins, do you know what margin you need. How does this compare to others, is this a limiting factor or is

that up to you because of your competitive advantage. If you have needed funding then demonstrating gross margin management will be important to your proposal.

21. Business Structure, why have you chosen the business structure, the simplest being a sole trader. This may be the right solution but why, show the reasoning to demonstrate you have looked at the options. To look at options and discount them is a good management philosophy, not to look at them can lead to disasters and therefore it is a good discipline.

22. Premises and location. This is one of the most crucial factors particularly if it is a retail business. However this choice will need to be made taking account of

- will your customers come to you
- can suppliers find you easily
- transport feasibility
- is it easy for employment of staff
- is there car parking
- is it on a bus route or will all staff have to have cars to get to work

Are the premises just big enough for now, what about tomorrow. Lease terms, is it long or short, what are your commitments, break clauses, it is a real drain on the business?

23. Management & CV's. For potential lenders this section ranks very high in importance. The plan should demonstrate that you and any staff members have the variety of skills needed to run a business like yours. Additionally if you have identified any shortcomings, what you are going to do to address this.

Include salary and wages agreed at the outset.

It is recommended that a short CV is included for all people to be involved. Include an organization chart of staff and business functions if there are more than 2 staff involved.

24. Financial Information. All the above must now be quantified into real financial information to show how the idea can turn into reality, into profit particularly if outside finance is involved. This still matters even if you are funding the business yourself, will you ever get your money back. Remember businesses swallow money very rapidly if not controlled, there must be payback or why do it.

25. The following financial information would be expected:

- Year 1 Monthly profit and loss together with cash flow projections.
- Year 2 Quarterly figures as above
- Year 3 Annual Figures projected forward from an assumption base.

26. The overall capital requirement should be mapped out. This would include the following:

- Purchase price or set up costs
- Fixed assets purchase or lease. I.e. plant & machinery, tools, motor vehicles etc.
- Purchase of Stocks
- Working capital – bear in mind how long it will be before you receive any cash in from sales, But you will still have rent, wages etc. to pay. Could be a few days to a full months/quarters expenses to fund as well

27. Assumptions underlying. By carefully detailing these and building your projections in that way, you then can identify correct assumptions as well as badly judged ones against actual trading.

An example of assumptions may be:

- Assume cash received in 30 days from date of sale.
- Inflation factors.
- Stock turnover is 60 days
- Gross margin is 50%

Once trading has begun monitor the business performance against these. What is correct, where is it wrong, so what happens to the plan if the assumptions are changed.

As you can see having well thought out assumptions will make a difference taking your business forward.

Franchises

28. A popular way of getting started in a new business is to buy into a franchise. Statistics prove that the success rate of setting up a new venture in this way has a much greater chance of success, than going it alone.

29. A franchise is where you purchase into an existing business, with a business structure already in place. It will usually involve a Cash payment up front to buy into the business idea. After all you are buying into someone else's business idea and experience.

30. This should provide a business on a tried and tested formula. How effective this is depends upon the franchisers business experience.

31. However you must make extensive enquiries into the strength of the business being purchased and to the business support provided to you. **It is your responsibility to ensure you know what you are buying into.** Do not believe everything you are told without challenging or questioning, talk to other franchisees.

32. It is important to take professional advice when looking at franchise purchase, there are some very good ones but unfortunately there are others that will not suit you and/or provide the support you are perhaps looking for, - so be warned.

33. Make sure you understand all the obligations, e.g. royalties etc.

34. Franchises is a business option that may be the way you feel comfortable with, a business structure and strategy already in place, the initial set up usually done for you, - but it is your choice and decision.

Purchasing an existing business

35. Find an existing business that is for sale.

36. There are always businesses for sale in your area:

- people want to retire
- want to concentrate on different things
- moving location/towns

37. This may suit you but will usually need more. Capital available from the outset.

38. If a business looks to be what you are looking for then it can provide the answer, you will need to check:

- the local business reputation
- the reason for the sale
- the financial state of the business, i.e. is it profitable?
- Staffing and whether the staffs are being retained
- The marketplace, ensure it is there for you.

39. What is actually being sold? Some parts of the business will be of real value to you, such as the customer list, its stocks but other parts may have little value, leases or property or its existing liabilities. Ensure these are all checked and understood or you risk a rapid drain on your resources.

NB. There are many different aspects of a business, ensure you know what is being sold to you.

40. Be careful not to limit yourself with the old business problems, you may be able to 'cherry pick' the valuable parts to you, but this will probably cost more.

41. Advantages of buying an existing business include:

- Buying experience and expertise of the previous owner.
- Learning from their mistakes
- Established reputation
- Established customer base

42. Disadvantages of buying an existing business include:
Finding the right business can take a long time.
Can buy into business problems that remain after the purchase.
Professional fees can be expensive but are very necessary for your own protection.
of buying an existing business include:

43. When negotiating try to get an agreement for a deposit with some being tied into the continuing profitability of the business. Need to establish this before purchase in principle has been agreed, when you are in the strongest bargaining position.

Business Structures

44. The options you have in establishing business structures are:

- A Sole Trader
- A Partnership
- A Limited Company

Sole Trader

45. The Sole Trader is the most common and simplest business structure.

46. You can trade in your own name and manage yourself as a self-employed individual, employ staff, work from home, and an office.

47. You should notify the Contributions agency and the Tax office when you start the business, as it is a change of circumstance.

48. The main disadvantage is that you have unlimited personal liability, you are responsible for the business debts and your personal assets can be taken to pay your creditors in the case of bankruptcy.

49. You are the business, it can take time to build up a reputation with customers, suppliers if you are not known in the area, industry.

Partnership

50. Very similar to sole traders except this is where two or more people are involved in the business itself. This includes shared responsibility.

51. Partners are treated as self employed and taxed as such, the profits being shared in proportion to your agreement, either verbal or written.

52. The main disadvantage is that each partner can commit the partnership contractually.

53. It **is strongly recommended** that a solicitor at the beginning of the partnership formally draw up a partnership agreement; this would cover the legal obligations of the partners and what happens in case of disputes.

54. The agreement will also covers the profit share agreement so there can be no doubt about what was meant from the outset of the business.

55. There is unlimited personal liability, the partners are responsible for the business debts and their personal assets can be taken to pay your creditors in the case of bankruptcy.

Limited Company

56. A limited company can be the business structure your business requires. This could be for: -

- *Credibility – it can be regarded by some as more reliable than sole traders or partnerships for various reasons. There is public information available on companies, which is not available for other types of business, which are very private.*

Raising of finance can be easier for companies than for sole traders etc. Issuing of shares is one example.

57. The company can complete all the transactions that a sole trader can, contracting, own property etc. the big difference that in most cases if the company goes into liquidation the directors have no personal liability.

58. The main disadvantage revolves around the compliance with the legal aspects of the Companies Act that the directors of the company must adhere to. This includes the filing of accounts in strict timescales.

59. Note that for new businesses banks will often ask for director's personal guarantees against loans and overdrafts, thereby making you as director personally liable for those debts in the case of liquidation. The limited liability would not then apply.

Compliance Requirements

60. There are certain requirements under law that you need to do depending upon the type of business you are starting. Make sure you do know what you have to do.

Sole Trader/Partnerships:-

Register as self-employed with the Inland Revenue and Contributions Agency.

Check that if you are **not using your own name** that the name is not going to give problems because someone else uses it. After all you do not want someone else benefiting from your hard work in getting established.

The places to check to be sure are:

- Local telephone directory
- Trade Associations
- And if you are going to be in other areas or trade nationally then
- the Business Names Register

This would be the usual checks, however to be certain you should also check with Companies House and the Trademark registry.

Limited Company

61. You must register the name when setting up a company with the Registrar of Companies in either Cardiff or Edinburgh.

The name cannot be the same as any other, sometimes you may find similar names, you do need to check these to see if they are in the same industry, if so best to find a new name.

62. There is an obligation upon all businesses to maintain proper books and records to comply with either the self-assessment rules or the Companies Act. Ensure you understand what is required. Help and advice with this can be obtained from either the Inland Revenue or an Accountant.

Stationery

63. For limited companies you must comply with the following:

Letterheads and invoices must contain the following:

- Name of Limited company
- Registered Office address
- Trading Address if different
- Company number
- Where the company is registered
i.e. (England & Wales)

Insurance

64. It is likely that you will need specific insurance particularly PL - public liability and EL - employers liability. If you employ staff the EL is compulsory and you must display the insurance certificate in your office. Additionally depending upon the industry you may need PL insurance (Public Liability).

Who Can Help?

Business Links

65. There is not much available in financial assistance for starting new businesses. However in all parts of the country Business Links are available and can assist you in various aspects. However this does vary from place to place. Business Link is a nationwide network of advice centers. It provides advice to all small to medium sized companies.

66. They have access to advice and guidance to most aspects of business often at reduced rates via DTI funding. Such areas covered are:

- Grant advice
- Exporting
- Management development
- Strategy
- Quality
- And most other areas that involve business development

Bank Manager

67. Most people's first port of call when considering a business venture is to the local bank, to see a business advisor. Usually they will ask for a business plan and will provide a useful book and software for preparing one.

68. They will provide you with a list of the various services that are available from that bank, these will generally include: -

- Deposit accounts
- Factoring services
- Leasing and HP
- Company credit cards

Accountants

69. Having the right financial advice is an asset businesses need to prosper. Having all the relevant information on which to base that decision makes good business decisions.

70. Having an accountant working with you sounds easy, however choosing the right one is important. It is very personal and therefore there must be a good level of trust, get on with each other and respect. After all you will probably tell your accountant more about your personal affairs than anyone else.

71. Using an accountant from one of the recognized professional bodies probably means he has experience of other start up situations, use that to your benefit.

72. The right accountant will be able to provide advise on business matters, taxation, VAT and assistance in dealing with the various authorities, e.g. VAT and Inland Revenue.

Solicitor

73. A solicitor can be helpful with key aspects when establishing a business. Such as terms of Trade, Partnership contracts, shareholders agreements are all necessary part in the early stages.

74. There will also be circumstances in your trading life when advice will be needed and having established a relationship with one who knows something about your business will be helpful.

75. Compliance issues and regulation are part of our everyday lives, unfortunately these keep changing and you need someone to advise you. A commercial solicitor is required, check their experience in that marketplace, if all they do is domestic then will they be up to date in what is required.

Cash Flow

76. **Cash is King** is a well-known saying. In business it is so true and you must never lose sight of that fact.

77. Orders are very important to any business, it is the future cash flow but what can you do with orders, nothing until they are produced and dispatched to your customer. Cash today can be used in many different aspects of the business.

78. As part of your business plan a cash flow is an important element. This will show the peaks and troughs of the demand for cash in the business and whether there will be a need to have an overdraft facility, borrow money for working capital, dip into your savings etc.

79. In its simplest terms cash flow is the sum of the business receipts less the payments made in the period or cash inflows less cash outflows.

80. Cash Inflows are: -

- Receipts from income or sales
- Capital Introduced
- Proceeds from sale of assets
- Bank Loans

Cash outflows are: -

- Purchase of stock
- Business expenses
- Payment of Wages
- Drawings made
- Tax Payments
- Asset purchase
- Vat paid

81. Remember your working capital and how important the management of this is: always look to retain the correct level of liquidity (it is not always possible but you must aim for that)

Net working capital is made up of the following:

Debtors + cash + stock - creditors.

Cash is still King!!

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The First Year

82. Now you are trading, well done, after all the planning and listening to advice, all will be well:

WRONG

83. Remember never be complacent about your business, do not take it for granted. Successful businesses take a lot of hard work and effort, everyday.. A complacent business manager is tomorrow's failure. The needs of the business are forever changing, we live in a changing dynamic marketplace and we must keep up with it.

84. Now you are trading, do not expect too much too soon, building the trade up is a matter of building block approach, one step at a time.

85. At the start your potential customers probably do not know you exist, make sure all your steps along the way are with an aim in mind. Build upon the successes and learn from the failures.

86. Keep faith in what you are doing, do not deviate from the plan, revisit the reason why you started your business

87. At the end of the first year take stock of what you have achieved, well done for getting that far, now are you ready to carry on building in year 2.

Budgeting

88. A business plan was produced for the start of the business that changed your life. Now is the time to take that plan a stage further.

89. Prepare a budget for the next year of trading, - learn from the best of last year and do not repeat the mistakes. The budget needs to be assumption driven just like the business plan was. Firstly review your original assumptions, retain those that worked, adjust or discard those that did not work out

90. Once the assumptions have been updated remember to show last year's comparative figures as a guide. Look at the actual figures achieved against that which was forecast. Adjust the projections for the new assumptions.

91. Recalculate the budget starting with known established costs, i.e. Rent, wages etc and build the budget up from there.

VAT and other Financial Matters.

92. If your turnover of over a certain limit you must register for VAT. This limit is reviewed in the Budget each year. Be aware of the limit because you could end up with a penalty for late registration without realizing it.

93. Additionally it may be in your interest to register for VAT even if you are below the limit. The reasons for doing this would be:

- Integrity factor - the customers you are dealing with would expect you to be registered, if not it sends out a signal that you are a very small business
- The purchases you make all attract VAT and therefore this can be recovered by registering.
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However you must bear in mind your customers, if retail would the extra 17.5% price increase have an effect upon your business.

If you deal business to business then it probably would not make any difference, as they would be able to recover the VAT.

94. There are two basic VAT schemes for accounting for the VAT, cash accounting and the standard scheme.

Cash accounting is where your turnover is below the prescribed limit you only pay and reclaim the VAT on what you have been paid, therefore if a customer has not paid your invoice in the quarter then you do not need to account for the VAT until they do.

Standard scheme is where you account for all VAT on your invoices, this time it does not matter whether you have been paid for the goods or not. By raising the invoice within the quarter dates the liability up on you to account for the VAT to Customs & Excise.

95. If during the year your turnover exceeds the prescribed limit then in the relevant quarter you must account for VAT on the standard scheme plus

pay any items not previously accounted for, unless you get an agreement with Customs & Excise.

The details of the limits referred to above can be found on the following websites:

<http://www.customsexcise.gov/>

<http://www.jtfoster.co.uk/>

96. It can be a good idea to have a separate bank account specifically to retain your VAT. I know many businesses do this to avoid sudden cash flow problems when the dreaded Vat bill is due, this also stops you relying on this money as business funds.

If you are able to use this money and still pay the bills on time without too much pain then fine, but otherwise I would suggest the above.

Taxation

97. In all your planning and projections remember to budget for tax payments.