



The Essential Guide to **STARTING A BUSINESS**



To help you get to the stage where you can turn that business idea into a reality, we've created this short guide of important aspects to consider when starting a business.

It includes valuable tips on how to conduct market research, complete a cash flow forecast as well as advice for choosing a company structure. We hope you find this guide useful and wish you all the best in becoming your own boss.



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1. DEVELOPING YOUR BUSINESS STRATEGY

So you're ready to take your business idea to the next level? That's great! The next step is completing market research to make sure that your idea is valid and achievable.

1.1 DEFINE WHAT YOUR BUSINESS DOES

Known as the elevator pitch, this is a great tool to start with when developing your business strategy. It's intended to be a short, snappy summary of how you would answer the question *'What does your business do?'* It can be used for networking, but can also help you clarify the purpose and mission for your business.

Lasting no longer than 20-30 seconds, make sure to include:

- ✓ *What problem, want or need does your business solve?*
- ✓ *How exactly your business solves this.*
- ✓ *Make it interesting and attention grabbing. It can act as a pitch for sales.*

1.2 WHAT IS A BUSINESS PLAN AND HOW CAN IT HELP YOU?

A Business Plan is a written document that describes your business goals and outlines a plan for how you will achieve them. It explains the business objectives and strategies, as well as including the sales, marketing and financial forecasts. A good business plan can help focus your mind and ideas and it's an opportunity to have everything in one place.

Your business plan should sum up:

- ✓ *The customer need you're aiming to meet.*
- ✓ *How your business will meet that need while making a profit.*

A Business Plan should be a working document that develops alongside your business.

Your business strategy should cover three important topics that we will go through in more depth in this guide:

- 1** *Market Research (p.5)*
- 2** *Operations (p.8)*
- 3** *Calculating Your Business Finances (p.11)*

If you don't already have a Business Plan, download our free, easy to use template from the Start Up Loans website:

startuploans.co.uk/business-plan-and-cashflow/

2. MARKET RESEARCH

2.1 UNDERSTANDING THE MARKET & YOUR CUSTOMERS

Once you've got your business idea, the next step is confirming if there is a demand for what you plan to offer. Conducting market research is vital and is a way of finding out what customers want and if your business idea satisfies that. Ideally, you want confirmation that customers will purchase your product or service and that they would be willing to pay the price you want to charge.

There are a variety of research methods that you can use, even if you have a low budget:



Send out a survey

You can create and send out a survey to your contacts. You can even use free tools such as SurveyMonkey. Social media is a great tool for increasing responses. Why not use your followers and if you're struggling for responses, try offering a prize?



Attend networking events

You can find quite a few that are free to attend by looking on sites such as Eventbrite or asking at local libraries. It's a great way to meet people in the same startup position as you. Whilst you're there why not do some free market research by talking to potential consumers.



Speak to family and friends

Ask them to give you an honest view of your business idea and ask for constructive criticism as to what you could do better.



Hold a focus group

This is a great way to meet potential customers and get their valuable opinion. For example, if you're creating a baby product, see if there are any mother and toddler groups taking place near you that you could attend.

2.2 WHO ARE YOUR COMPETITORS?

It's important to look at businesses that are offering similar products or services to those you plan to offer. Think about why a customer would use your product or service above others. This is essential in planning your marketing and sales strategy as it may mean you have to tailor your product or service to remain competitive. Look at two groups of competitors:

1. Direct Competitors

Those selling the same or similar products or services. If your business is a coffee shop, direct competitors are other coffee shops.

2. Indirect Competitors

Those selling substitute or alternative products or services. If your business is a coffee shop, indirect competitors are other business places satisfying a customer's need for food or drink such as pubs.



What to consider when researching the competition



Price

Is another business offering the same as you for a lower price? Or is your price way ahead of competitors? You have to be competitive, so think about the quality you are offering too.



Quality

What can competitors offer customers for their money and how similar or different is this to what you can offer?



Location

With the rise in online shopping and international companies exporting, check out similar products and services from further away – location doesn't always rule them out as a competitor.

2.3 PREPARE A SWOT ANALYSIS OF YOUR BUSINESS

A SWOT analysis can help you to understand the internal strengths and weaknesses of your business idea, as well as the external opportunities and threats that your business can look to take advantage of or avoid.

'Strengths' and 'Weaknesses' are to do with internal capabilities and relate to your business, or business idea. For example let's use a bakery. An internal strength would be the high quality of the cakes. An internal weakness could be the cost, which may reduce the attractiveness to customers.

'Opportunities' and 'Threats' relate to the external environment that your business is in. For example, an external opportunity for a bakery business might be changing consumer tastes and the rise of personalised cakes, whilst an external threat could be the rising price of flour.

<p>Strengths (internal) What does your business do well, or what do you plan for it to do well?</p> <p>Example:</p> <ul style="list-style-type: none"> • Competitive price? <p>List all the strengths your business/business idea has here!</p>	<p>Weaknesses (internal) What does your business not do so well?</p> <p>Example:</p> <ul style="list-style-type: none"> • Do you have a lack of finance to develop your business? <p>List all the weaknesses your business/business idea has here!</p>
<p>Opportunities (external) What is happening in the external environment that your business can take advantage of?</p> <p>Example:</p> <ul style="list-style-type: none"> • Is the market for your product or service increasing in size? <p>List all the opportunities for your business here!</p>	<p>Threats (external) What is going on in the external environment that might affect your business negatively?</p> <p>Example:</p> <ul style="list-style-type: none"> • Are there a lot of businesses doing the same as you? <p>List all the threats to your business here!</p>

Now you've listed as much as you can think of, there are a few questions you should try and answer.

- ✓ *What makes your business better than your competitors?*
- ✓ *How can you promote the internal strengths of your business?*
- ✓ *What internal strengths can you use to try and take advantage of the external opportunities?*
- ✓ *How can you reduce the number of internal weaknesses your business has?*
- ✓ *What external threats should you monitor?*

Try completing the below SWOT analysis for your own business idea.

Strengths (internal) What does your business do well, or what do you plan for it to do well?	Weaknesses (internal) What does your business not do so well?
Opportunities (external) What is happening in the external environment that your business can take advantage of?	Threats (external) What is going on in the external environment that might affect your business negatively?

3. OPERATIONS

3.1 THE STRUCTURE OF YOUR BUSINESS

When you start your business you will need to decide what structure you will trade under. There are two main options that we will look at in more depth:

- 1 Trade as a sole trader
- 2 Register as a 'limited company'

What's involved?

<i>Sole Trader</i>	<i>Limited Company</i>
You operate the business as an individual and are responsible for the business	The business is a separate legal entity of which you are the Director
You do not need to register your business with Companies House	You must register your business with Companies House
No distinction is made between business finances and your personal finances	Business finances are separate to your personal finances
You are personally liable for losses that the business makes	The business is liable for losses that the business makes
You can employ staff	You can employ staff. As the Director, you are an employee of the company
You must complete a Self-Assessment Tax return for every financial year with HMRC	You must complete a Self-Assessment Tax return for every financial year with HMRC
You must pay income tax on the profits that the business makes	You must pay Corporation Tax
You must pay National Insurance	The Company must pay National Insurance and income tax
You are personally liable for losses that the business makes	The business is liable for losses that the business makes
You do not need to file Annual Reports with Companies House	You must file Annual Reports with Companies House

There is the option to start a business in a partnership and this can be done under a limited company, or you both act as sole traders. In a business partnership, you share the gains and the losses.

It's important that you research company structure in depth and work out what is best for the business you want to operate.



TOP TIP - Choosing a company structure

It's widely recognised that operating as a sole trader is easy to set up and involves less paperwork, but operating as a limited company is more tax efficient as the company becomes a separate entity. However, if you start out as a sole trader but want to become a limited company as the business develops, this can easily be done.

3.2 PROTECTING YOU AND YOUR BUSINESS

It's important to understand the risks that your business faces. Are your customers, employees or property at risk? If something goes wrong, insurance can stop your business from losing lots of money. There are many types of insurance available and it's important to know what type applies to your business, as some are a legal requirement.

Business Insurance Types

Public liability

Protects you if someone, or their property, is injured as a result of your business and wants to be compensated for that injury or loss. If customers can hire your services, they may ask to see your public liability insurance policy.

Product liability

Protects you if someone is injured as a result of the product that the business makes.

Employers' liability

This insurance can help protect you if an employee becomes sick or injured due to the work they do for your business. Even if you have only one employee, this insurance is a requirement by law.

Professional indemnity

If your business involves providing professional advice, this insurance protects you from legal action or claims against mistakes in your work.

Commercial property

If your business will operate from premises, i.e. a physical store, this insurance protects you against the cost of repairing the property and stock should an accident happen.

Key man

If you are self-employed, you have sole responsibility for your business. This is a form of life insurance that would aim to compensate the business from losses that would occur from the death or extended sickness of an important employee.

This list is not inclusive of all insurance policies and there are many more available. Make sure you do your research, think about who your business will come into contact with and make sure you're protected if things go wrong. Be aware that insurance policies can differ so be sure to check the small print.

3.3 BUSINESS TAXES

The tax you pay will vary depending on what company structure you choose. Be sure to research the different types of tax and include them in your cash flow forecast which we will cover in Section 4 of this guide. Below is a brief explanation of some common business taxes.

Corporation tax

If you register your business as a limited company, you will have to pay Corporation Tax. After you have registered your company with Companies House, you will have to register for Corporation Tax with HMRC.

Pay As You Earn (PAYE)

If you employ staff, this is a system you can use to take income tax and National Insurance contributions before you pay salaries. Employees are assigned a tax code, which determines how much is withheld.

Capital gains tax

This is the tax on profits you make when selling a product or service. For example, if you buy a table for £100 and sell it for £150, you are taxed on the gains that you have made in the sale, not the full amount you receive.

Business rates

If you plan for your business to operate from a physical premise that's non domestic, e.g. a shop or an office, you will have to pay 'business rates' to your local council. These will differ based on where your business is located, so make sure you check the rates before signing for a premise.

Income tax

If your income is above a certain threshold (known as a Personal Allowance), you will be taxed. The Personal Allowance (amount of your income that is not taxed) is decided by Government and can vary each year. There are three different tax rates that depend on your income; 20% basic rate, 40% higher rate and 45% additional rate for incomes over £150,000.

National insurance

You will have to pay National Insurance once your business starts earning more than £5,965 a year. Your National Insurance benefits contribute to your State Pension.

VAT

If the turnover of your business reaches £82,000 within a 12 month period, you must register for, and pay, VAT on your sales. You can register with HMRC.



TOP TIP - Self assessment tax date - Midnight Jan 31st

The tax year runs from 6th April until 5th April the next year. If you're self-employed and operating as a sole trader or a Director of a limited company, you'll have to complete a self-assessment tax form. Put the date in your diary and remember to check deadlines for registering.

4. CALCULATING YOUR BUSINESS FINANCES

Failing to understand the Cash Flow of your business can be the make or break of it. It's important that you know how much money you have going out of your business, and how much money you need coming in to make a profit.

4.1 WHAT IS A SALES FORECAST?

A sales forecast is an estimate of how many units of your product or service you will sell every day, week, or month. After working out all of the costs involved in producing and marketing your product or service, you should be aware of how much you need to sell to make a healthy profit.

- ✓ Consider the channels that you are selling through and how the sales will differ in each - are you online, in a store or a market place? -21
- ✓ If you have more than one product, how will sales vary for each of these? Think about factors such as price, sales channel, availability and customer want or need.
- ✓ Benchmark against previous sales. Have you conducted test trading? 90%
Whether it's a car boot sale, a market stall or a pop-up, it's a great starting point to see how much you predict to sell in the future. It will also highlight any flaws in your business strategy that may need altering e.g. if your price is too high. +4

4.2 WHAT IS A PERSONAL SURVIVAL BUDGET AND HOW CAN IT HELP YOU?

A Personal Survival Budget is a list of your personal finances and will show you the amount that you will need to take from the business to live on. To see an example, download our free Cash Flow template.

startuploans.co.uk/business-plan-and-cashflow/



4.3 WHAT IS A CASH FLOW FORECAST AND HOW CAN IT HELP YOU?

A Cash Flow forecast is an important way to help you manage your business and its costs. The document itself can look intimidating, but it involves using available information to predict how much money you will have coming in and going out of your business at any given point.

Golden Rules of Cash Flow Forecasting

- ✓ Be realistic.
- ✓ Remember the definitions of income (money received from work and/or investments) and cost (amount of money needed to produce your product/service).
- ✓ Plan multiple scenarios, including for when things go wrong.
- ✓ Factor in fixed costs (constant costs such as rent and salaries) and variable costs (costs dependent on how much you produce such as direct materials).
- ✓ Plan for seasonality and remember to factor in expected busy and quiet times of the year.

How to Complete a Cash Flow Forecast

Firstly, write the business name at the top of the page and change the numbers at the top of the cash flow forecast into months. Remember to start with the first month of trading.

	i	ii	iii	iv	v	vi	vii	viii	ix	x
Accounting fees	15 000	6 000	3 000	12 000	3 000	5 000	90 000	103 000	-	-
Investments and audit fees	1 000	3 000	1 000	3 000	3 000	71 000	-	-	-	75 000
Design expenses	6 500	1 000	1 000	30 000	30 000	4 000	1 000	75 000	75 000	500
Database management expenses	15 000	30 000	500	500	500	4 000	45 000	500	500	500
Printing expenses	20 000	500	8 000	8 000	8 000	-	1 000	1 500	4 000	4 000
Stationery	8 000	500	500	1 000	2 000	2 000	3 000	3 000	4 000	4 000
Other	1 000	2 000	2 000	3 000	3 000	2 000	1 500	1 000	1 000	1 000
Total	2 000	3 000	3 000	2 000	2 000	1 500	500	2 000	2 000	2 000
Net Cash Flow	3 000	1 000	1 000	1 500	1 500	1 500	500	450	450	450

A Cash Flow forecast is split into two main sections:

1. Cash coming IN - Revenue

This section is where you list any money that you have coming in to the business such as investment, loans and money from sales that you predict to have (these will be calculated in your sales forecast). Your 'Total Income (A)' should automatically be calculated.

2. Cash going OUT - Expenditure

This is a large section of the Cash Flow forecast that includes all money spent (expenses) relating to business activities. Below are some handy tips for what to enter in the relevant sections:

Owner Salary – this is calculated from completing a Personal Survival Budget and is the amount you will need to take from the business for your personal use.

Loan Repayments – if you have listed a loan in the 'Revenue' section of the Cash Flow forecast, make sure you include the monthly repayments here.

Expenses – What items have you purchased for the business? These will differ for every business and you may need to add or remove expenses that are not listed on this document.

Your 'Total Expenditure (B)' should automatically be calculated once you enter the relevant amounts.

The net Cash Flow of your business = Total Income – Total Expenditure (shown as A – B).

4.4 FINANCING YOUR BUSINESS IDEA

By completing a Cash Flow forecast, you'll have worked out the amount of money that you need to develop your business idea into a reality. If you need financial help but could also benefit from free business support, then the Start Up Loans scheme could help you.


The Start Up Loans Scheme




Start Up Loans are government-backed personal loans for business purposes. They are available to businesses yet to launch or those that have already started trading.

Whether you are yet to apply for a Start Up Loan, or have already received the finance and are up and running, there are a number of support options available to help you along the way.



- ✓ You will work with a Business Advisor who will provide guidance on completing your Business Plan and Cash Flow.
- ✓ If your application for a Start Up Loan is successful, you will be offered an experienced mentor to help support and guide you on your business journey.
- ✓ Once you receive your Start Up Loan you will be eligible to redeem a variety of exciting business offers to help reduce the cost of running a business.

 **WHAT IS A START UP LOAN?**

UP TO £25,000 FINANCE AVAILABLE	6% p.a FIXED INTEREST RATE
 £5500 AVERAGE LOAN SIZE	 1-5 LOAN YEARS TERM
✓ NO APPLICATION FEE ✓ NO EARLY REPAYMENT FEE	 FOR UK BASED BUSINESSES
GOVERNMENT BACKED	

DETAILS CORRECT AS OF DEC 2015

TOP TIP - From the Business Advisors



- ✓ *Be realistic. Your sales are unlikely to be the same every month and the business will have busy and quiet periods.*
- ✓ *If your business has regular payments, whether they are monthly, quarterly or annually, be careful when selecting the month and the amount accordingly e.g. insurance payments can be paid monthly, quarterly or annually.*
- ✓ *If you register for VAT (your turnover is more than £82,000) don't forget to include your quarterly payments. Turnover is the amount of money that the business takes in a certain time, typically a financial year.*

**So if you're ready to take your business to the next level,
apply on our website at startuploans.co.uk**

5. HEAR FROM BUSINESSES WE HAVE BACKED



Elizabeth Klanga - Jewellery

"I applied for a Start Up Loan as the scheme offered a mentor and support to help start my business.

The loan gave me the opportunity to display my jewellery at trade shows, which can be expensive. I was also able to purchase marketing materials such as business cards, display boxes and create a new website.

The mentoring I received has helped me stay focused at all times – he always had a list of goals for me to achieve each month."



David O'Neal - Hair salon

"I decided to get a Start Up Loan for my business as I didn't have the initial capital myself and needed funding.

I was attracted to the scheme as I knew that it was a straightforward loan that didn't take a share of my business and I was also interested in the free mentoring.

The fact that the scheme was government backed gave me confidence to approach them."



Pippa Murray - Nut butters

"When I received my loan Pip & Nut was just an idea so I used the loan for proof of concept. I created a cheap, well branded product and spent three months selling at a market to trial if people would like it.

The loan also allowed me to spend time in a product development kitchen testing different recipes for the final peanut butter.

My Start Up Loan mentor has been one of the best sources of advice that I've had whilst starting up the company."



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Have a question? Get in touch by email or phone:

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