

STARTING A NEW BUSINESS – KEY STEPS TO HELP YOU



If you are contemplating a new business start-up (perhaps due to loss of employment) then the present Coronavirus disruption is very definitely a factor you will need to consider.

With this in mind, there are other important issues you should also consider...

- **PLANNING AND RESEARCH**
- **TAX OPPORTUNITIES AND PITFALLS**
- **MANAGING YOUR BUSINESS**
- **WHAT'S NEXT?**

This Special Issue Broadcast details key areas of each of these four processes that, as an entrepreneur, you should be considering.

From tax pitfalls to look out for to special considerations you need to examine during the present economic downturn – this step-by-step guide delineates the key factors you must implement into your new business.

PLANNING AND RESEARCH

Your planning and research should cover the following issues:

- What does it take to run your own business?
- What skills will you need?
- What do you know about your competitors?
- How much capital will you need to raise?
- What resources will you need: plant, equipment, computers etc?
- Could you start on a part-time basis and delay leaving the day job?
- Can you run your business from home?
- What special considerations do you need to look out for during the present economic downturn?

What does it take to run your own business?

Certainly, you will need to manage various (sometimes stressful) situations. Consider if you have the interpersonal and management skills to deal with staff? Confidence will come from knowing the business products or services you are about to market, inside out. If possible you should have personal experience of operating successfully in your chosen market from your previous employments or business endeavours.

NOTE: if you have tried and failed previously in business, and are convinced that you can make a success if you tried again, beware. Learning from past mistakes is a painful affair. Test out your resolve to try Plan B with your professional advisors or family and friends whose opinions you trust.

What skills will you need?

It is important to distinguish between skills required to:

- Create income for your business and
- Those you will need to manage your business

To be a successful entrepreneur you should have personal experience of supplying goods or services in your chosen market place. We have seen numerous disaffected employees set up in business doing something 'completely different'. You will always have an advantage if you go into your new venture with a clear understanding of the challenges you face. Otherwise, you will risk losing your hard-earned capital as you attempt to wow your customers with skills you do not yet possess. Of course, there are always exceptions.

When you start your business you must split your time between the two issues we have raised in this section: creating income and managing your business. At first sight, there may seem to be no difference between the two – however, it is important to note that there is.

For all the latest news...

Most first-time business owners get caught up in the daily round of winning and taking care of customers. You must also take care of your business. For instance:

- Managing cash flow
- Managing staff
- Maintaining your accounts
- Meeting your statutory obligations, to file accounts, tax returns and other statutory returns
- Managing relationships with suppliers
- Creating and monitoring a business plan
- Paying tax and VAT on time
- Marketing

Becoming an expert in accounting, tax, marketing, personnel and legal matters is probably beyond the skill sets of most of us. The trick is to decide what you are going to manage and the skills you need to buy-in. For instance, rather than spend every weekend catching up with your bookwork you may decide to employ a part-time bookkeeper.

What do you know about your competitors?

The customers (and prospective customers) who you will want to tempt with your business services or goods will generally have an advantage – they will know what your competitors are offering.

If the present slow-down in the economy continues, business and public consumers are going to become ‘shopping around’ experts. You too must familiarise yourself with your competition, and not just the price they are charging for like-for-like services and goods. For example:

- How do they advertise?
- What information can you glean from their website, how does it compare with yours?

You should be on the lookout for ideas that you can take on to improve your business model.

How much capital will you need to raise?

We cannot over-emphasise how important it is to produce a business plan before you start up your business. A good business plan will prepare you for the journey ahead. Placing your savings in a bank account and diving in, without considering or planning your activity is a recipe for disaster. At a minimum, you will need to produce a three-year forecast in the form of Profit Statement, Balance Sheet and Cash Flow. Ideally, this will be backed up with a report that includes:

- What share of the market are you aiming to capture
- How price and service competitive will you be
- Your marketing plans
- Steps you have taken to secure the supply of goods to resell or other key resources in light of the present Coronavirus disruption and impending Brexit

We can help you with all of these steps.

What resources will you need, plant, equipment, computers etc?

Most homes these days have a computer of some sort and perhaps you know someone that has an unused piece of equipment that could be used to start your business. Until you have demonstrated to yourself that you can make a success of your business try and keep your initial outlay in this area to a minimum. You will need capital to support the growth of your business as well as the set-up costs so don't use up more cash resources than you need to buying brand new equipment.

If you have to invest in new equipment consider leasing or hire purchase as well as outright purchase.

Could you start on a part-time basis and delay leaving the day job?

It may be impractical to consider 'trying out' your business venture on a part-time basis: you may have no full-time employment, or it may be impossible to provide the service you intend to offer part-time. If at all possible though do give this option serious thought. Financially it provides a buffer; your personal needs will be met by the day job releasing more of your start-up capital to fund your business.

Can you run your business from home?

As for the previous point, there may be good reasons why this option may not be available to you; lack of space, planning considerations etc. This option is less likely to work if your business is manufacturing or needs considerable storage facilities for trading stock. Retail businesses may need a shop front, and so on.

If you are setting up a virtual business trading on the internet, working from home is ideal. This option also has the compelling advantage that it would suffer less disruption in the event of further COVID related lock-downs.

What special considerations do you need to look out for during the present economic downturn?

Cash is king. How many times have we heard that cliché bandied about? During a recession or depressed economic activity, cash flow, the end of the trading cycle, is king. Most entrepreneurs are obsessed with sales; winning a new customer, selling more goods and services. Business people with an eye to sustainability are concerned with sales and profitability. In a recession, you need to be concerned with sales, profitability and cash flow.

There is no point in lending money to your customers; and if you think that is something you would never do take a careful look at your aged debtors' list and unpaid sales invoices. Accountants refer to the management of your unpaid sales invoices as credit control. In recessionary times you will need to keep an iron grip on debt collection and credit control. Setting up and maintaining an effective system is fairly straight forward, but to be effective you will need to understand its relevance.

If your sales are £5000 per month and you offer 30 days to pay and if your customers take 60 days to pay your business will need to replace the £5000 it should have received from another source – by increasing your overdraft, or by introducing additional personal savings and so on. You have not lost any sales, you have not reduced your profits, but if you suffer extended delays in the payment of your sales invoices your business will suffer. Ultimately you could run out of cash, be unable to pay your bills, and find yourself out of business.

For all the latest news...

Take advice on an effective credit control process for your business and stick to it. There's no point in winning new customers if you are forever chasing them for payment.

TAX OPPORTUNITIES AND PITFALLS

The Opportunities

Whatever you do, don't underestimate the UK tax system. Be very clear what your obligations are and the ways you can organise your business affairs to save tax. There is no point in planning for your tax liabilities after the event.

The time to plan is before you act. This is a really important point. As tax specialists, we take no joy in advising tax payers that they could have saved themselves tax if only they had acted in a certain way at some time in the past. The tax system is riddled with deadlines – dates, which once passed, deny you tax planning opportunities forever.

Before you commit to your new business, make an appointment to see a tax planning specialist. What you need at this point is much more than someone who can fill in a tax form for you or prepare a set of accounts. You need someone who can advise you on the best way to set up your business to minimise your tax liabilities. Some of the issues they will cover include:

- What is the best 'vehicle' for your business: a sole trader, partnership, Limited Liability Partnership or Limited Company?
- What is the best way for you to take earnings from your business?
- What opportunities are there to save tax if you buy plant or other equipment? Timing can be critical

As a practice, we offer a free initial consultation to new business start-ups. Once you have left the starting block, certain tax planning choices will slip beyond your reach unless you have identified and acted on advice before the starting gun.

Tax Pitfalls

Watch out for:

- You need to advise HM Revenue & Customs that you have set up in business
- If your projected turnover is likely to exceed the current VAT registration threshold, £85,000, you will need to register for VAT. Even if your turnover is below this amount there may still be an advantage to register voluntarily
- If you will be employing people in your business, you will need to register for PAYE

All of these notifications will require you to make returns and payments to HMRC on pre-defined dates. In both cases if you are late in making payment or filing returns there are potential penalties and interest charges.

In most cases filing and payment is required to be made online. Are you set up to do this? Do you have a broadband connection?

For all the latest news...

Other Government organisations

Companies House - If you are a limited company or limited liability partnership you will also need to send periodic returns to Companies House.

Information Commissioner's Office - Most businesses will need to register for Data Protection purposes. See www.ico.gov.uk

MANAGING YOUR BUSINESS

You will often hear the expression working on your business rather than working in your business. It's a useful starting point when considering how you manage your business.

Working in your business

This alludes to the process of finding and serving the interests of your customers. It is the activity that directly impacts sales.

Working on your business

If you are working on your business you are looking to maximise the financial return on the funds you have invested in your business.

Entrepreneurs are drawn to working in their business, they are sales-focussed. When market conditions are difficult, as they are at present, you will have more chance of riding out the storm if you divide your time between the two: working on and in your business. At a minimum you need to monitor your profitability and cash flow.

Although you should be concerned to create and maintain high levels of customer service this should not be at the expense of making sure you have adequate resources to take your business forward.

Here's a check list of tasks that should be attended to if you want your business to flourish:

- Divide your time between working on and in your business
- Learn how to delegate and team build, there really are only so many hours in a day
- Set high levels of customer service
- Create a marketing plan, test and monitor results
- Seek professional advice when you are out of your comfort zone
- Seek out fellow entrepreneurs, preferably not competitors, and share ideas
- Create financial plans, monitor actual results against this plan, take action to keep your business on track, or revise your plans if circumstance dictate that Plan A is not working

WHAT'S NEXT?

Talk to us. We would be delighted to offer you a free consultation to discuss your business plans and to offer you advice on the best way forward. Planning is the key to success.

Please contact a member of our dedicated team on **01753 888211** or email info@nhllp.com