

## **“STARTING OUT”**

### **How to Start Your Own Business**

*The first in a series of articles from Val Culley of Culley Lifford Hall Chartered Certified Accountants based in Lichfield and Walsall.*

#### **Starting out...**

If you're thinking of starting your own business you're probably excited by all the attractions it brings – being your own boss, working flexible hours, enjoying the financial rewards of a successful venture. However these things come at a cost – usually more pressure, longer hours and a patient wait for the business to develop sufficiently so you can earn more money. But if you're not put off by these challenges, you'd better make a start.

#### **Do you have a sound product or service?**

Define your product or service precisely and clearly. Make a list of its main selling points and think clearly about your competition. Why should people come to you? Is there already sufficient supply in your area? Be absolutely sure that your offering is sound and viable before investing your time and money. This means being realistic and doing your research first.

To define your market you need to know:

- How many people are likely to want your product or service?
- Who else already offers this?
- How will your offering be competitive?

Talk to CLH, your local Business Link, friends, family, colleagues – in other words, get as much information and feedback as you can about your product or service in your particular area. Listen carefully when people are not receptive to your ideas to find out why and how you can overcome any negativity.

#### **Are you right for self-employment?**

- Are you motivated?
- Are you 100% committed to your business? Do you believe in it?
- Will you put in the hours? Are you disciplined?
- Are you organised? Make sure you have a clear outline of what you need to do – long term and day-by-day and then do it!
- Do you have good spoken and written communications skills?

#### **Setting your price**

The final cost of your product or service should be made up of some (or all) of the following: labour, equipment, materials, overheads, taxes and profit.

Your selling price should represent a healthy margin from your cost price and reflect the market place. What do other people charge? This is a vital area for your research.

Talk to us about setting your price.

#### **Capital and cash flow**

You need to know some 'accountancy speak' so here's a simple guide. Your working capital equals the assets of the business minus its liabilities. Assets are what the business owns – land, buildings, equipment, cars, etc. There's also debtors, stock, cash in hand/at the bank and so on. Your liabilities are what you owe to others such as bank loans, creditors, wages, etc.

Always keep your records up to date. Make use of Internet banking for true, up to the minute financial information.

A cash flow forecast sounds complicated but it's really a plan of your financial ins and outs over a period of time. It helps you look ahead and plan wisely. We can do this for you.

### **Creating your business plan**

A business plan records your business strategy in a professional manner. It gives you credibility when talking to suppliers, professional advisers and the bank manager. It also helps you clarify your thoughts and moulds the direction your business will take.

Common headings for your business plan are:

Nature of business: Outline your product and service, briefly describe who your customers will be

Market research: Support your business idea with some research into the viability of it

Competitor analysis: Briefly outline your key competitors and state how you intend to compete/do better

Marketing plans: In this section, outline how you intend to bring your product/service to the market. How will you promote it?

Basic requirements: List what you need to get started. Plan for the first 12 months

Costs and Timetable: How much do you have and how much do you need? How will you finance this? And when are you planning to start?

Summary: Your personal commitment and ambitions for the business.

### **That all-important bank appointment**

You might not need to borrow money. That's great but you'll still need a business bank account. Shop around and find out what's available and what kind of account is most suitable for you with the most attractive package.

If you need to present your case to a bank or other lender, you'll need a cash flow forecast and your business plan. The plan should include what you want the money for and how and when you intend to pay it back.

Ask us about the best sources of business funding for you.

### **Your work space**

Aside from the usual considerations, make sure you adhere to any health and safety legislation that might affect your business. Find out more from HSE (Health and Safety Executive) on 08701 545 500 – they have leaflets and books available.

Don't forget you'll probably have to pay business rates too if you have premises.

Once you've decided where you're going to base your business, you also need to make a list of items you require to furnish it. This may include your operating equipment, fax machine, phone system, office furniture and whatever else you

need to successfully run your new company. Make a list and shop around for the best products at reasonable prices.

You may have existing equipment you own to introduce into the business. List and value these items because you may be eligible for tax relief on them.

### **Supports and grants**

These change regularly so find out what's available to you. You can do this through the DTI (Department of Trade and Industry), your local Business Link or Chamber of Commerce. Often you can get grants to help new businesses fund business space, staff or specific projects.

### **Your trading status**

- Sole trader
- Partnership
- Limited company
- Limited Liability Partnership
- Franchise
- Registered charity

Ask us to advise you – sometimes it is more tax-efficient to adopt one trading status over another. We can advise you.

### **Marketing**

Marketing is a huge field but in basic terms it means the method by which you get your products and services into the marketplace and attract customers for them. You can employ the services of a marketing consultant or design agency to help you.

As a base, you'll need a company name, a by-line that clearly tells people what you are offering (e.g. 'Warburtons – bakers born and bred'), a company logo (your image/identity) and some stationery.

As a general rule for marketing, don't be tempted to rush at it and produce brochures and leaflets without considering who they're aimed at and what you want to achieve from them. Carefully consider a mix of: networking events, advertising, direct mail, trade shows, web-site, PR and literature (including newsletters) but be careful to cost it first.

You'll need the following stationery immediately:

- Letterheads
- Business cards
- Invoices (unless you use your letterhead)

The Inland Revenue has a leaflet that tells you the legal requirements for your stationery but you should include your company name, contact details, VAT registration number and name(s) of the proprietors, directors or partners. There are also legal requirements for displaying company information on your website if you have one.

### **Keeping records**

The key to successful book-keeping is to implement a system and keep on top of the workload.

To help you understand your books, here's a brief explanation. You have two sides to your records – money in and money out. You can set up a manual system using cash books or, better still, a computer system (from the very

straightforward to more complicated systems, depending on your needs). We recommend you work with your accountant when setting up your own system as they will be able to advise you fully. Also consider the future and how your business might grow – you'll need a system that will keep up with you.

The most important thing is to keep everything! File it, put it in a designated box or drawer but make sure you have complete records that your accountant can make sense of and that will also provides key information for you to manage your business and ensures your records withstand Inland Revenue scrutiny as 'adequate'. Time spent at the outset making sure your records are up to standard saves your accountant's time and keeps fees to a minimum (i.e. no mess to sort out).

Having inadequate records leaves you vulnerable to Inland Revenue penalties.

### **VAT register?**

Once your sales are more than £64,000 per year, you have to register for VAT by law. If you're under that threshold, it's a voluntary arrangement. For new businesses, it is usually advisable to become VAT registered so you can reclaim VAT charges on all your new equipment, printing and other associated costs. However, you should discuss this with your accountants. Remember if you are VAT registered, you have to add 17.5% VAT to your final sales costs.

There is also an optional Flat Rate Scheme available for small businesses with a turnover of up to £150,000.

### **Year end**

At the end of your company's financial year, your accountants will need to have all your books and records to prepare your end of year accounts to support your self assessment tax return for the Inland Revenue. Limited companies also need to have accounts completed for Companies House within 10 months of the end of the financial year. Pre year-end tax planning with your accountant is advisable so you can plan for tax payments.

### **National Insurance**

Almost everyone who is self employed pays monthly Class 2 NI contributions to the DSS. Above a certain profit level, Class 4 contributions are paid. Get advice on this from your accountant.

### **Income Tax**

Check the Inland Revenue leaflet IR56 to check your eligibility for being self-employed. There are different rules and legislation for different kinds of trading status so speak to your accountant and make sure you are making arrangements for your own tax position. Remember anyone can be investigated by the Inland Revenue at any time so it's important to be properly organised.

### **Choose your professionals wisely:**

- Accountants
- Solicitors
- Bank/building society
- Insurance brokers
- IT services
- Marketing support

You may need some or all of the above but, above all, make sure you get a good accountant!

## **Employing your team**

Whether you are working alone or need a large team, you need to know the basics about employment law to avoid any unforeseen problems. We recommend you take professional advice before employing anyone. When you have a member of staff, you will need to pay them a gross salary, take out NI contributions (employer and employee), income tax and any other deductions before they receive their net pay.

The DTI also offers some valuable employment advice and is a good starting place for new businesses.

## **Useful Resources**

There is so much information available to help you. Decide what you need and compile your own index of references. We've provided the following to get you started but don't forget that the library, book shops, local Chamber of Commerce, Business Link, your bank and professional team will all have their own information to share with you.

For a nominal annual fee, your Chamber of Commerce should be able to assist with legal matters as well as providing all kinds of networking and promotional opportunities. Ask one of their representatives to visit you so you can find out more.

ACAS (for employment information)	<a href="http://www.acas.org.uk">www.acas.org.uk</a>
Business Link	<a href="http://www.businesslink.gov.uk">www.businesslink.gov.uk</a>
Culley Lifford Hall	<a href="http://www.culleyliffordhall.co.uk">www.culleyliffordhall.co.uk</a>
Companies Registration Office	<a href="http://www.companieshouse.gov.uk">www.companieshouse.gov.uk</a>
Data Protection	<a href="http://www.dataprotection.gov.uk">www.dataprotection.gov.uk</a>
DTI	<a href="http://www.dti.gov.uk">www.dti.gov.uk</a>
Equal Opportunities	<a href="http://www.eoc.org.uk">www.eoc.org.uk</a>
Health & Safety	<a href="http://www.hse.gov.uk">www.hse.gov.uk</a>
Inland Revenue & Customs & Excise	<a href="http://www.hmrc.gov.uk">www.hmrc.gov.uk</a>

## **CHECKLIST**

### **Time to get started...**

Have you:

Thought of a company name?

Done your market research?

Set your price?

Found somewhere to work from?

Decided if you need to employ staff?  
Planned your marketing strategy?  
Created a business plan?  
Produced a cash flow forecast?  
Got adequate funding?  
Chosen your professional support?  
Informed the DSS for NI contributions?  
Informed the Inland Revenue of your plans?  
Implemented a book-keeping system?  
Decided your trading status?  
Decided whether to register for VAT?  
Checked out the availability of local grants?

**We offer a free initial consultation  
– please contact us to make your appointment**

**As accountants and business advisers, Culley Lifford Hall is able to help with every aspect of your business strategy planning, at any point of its development. Come and talk to us and we'll help you with everything you need.**