BizBritain Guides

BizBritain Start Up Guide

A GUIDE TO STARTING YOUR OWN BUSINESS

W Written by
Matt Gubba

S Social Media
@BizBritain

P Published by
BizBritain

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The only limits to what you can achieve in life are the ones you create inside your own head.

MATT GUBBA, CEO & FOUNDER

Introduction

Hello and welcome! Matt Gubba, CEO & Founder of BizBritain here...

I put together this Start Up Guide for you, with a simple objective. I want to help you get your business started on the right track, while steering you clear of the most dangerous mistakes most people make when they're first starting out.

If you're reading this guide, you are part of what I consider to be a very special group of people. You already know you want more from life than a typical 9-5 job has to offer, and you are taking action to do something about it (you downloaded this guide, didn't you?). Give yourself a pat on the back; you deserve it. Most people never make it this far.

> *There has never been a better time to start your own business than right now*

It's highly likely you fall within one of the three categories of people reading this guide:

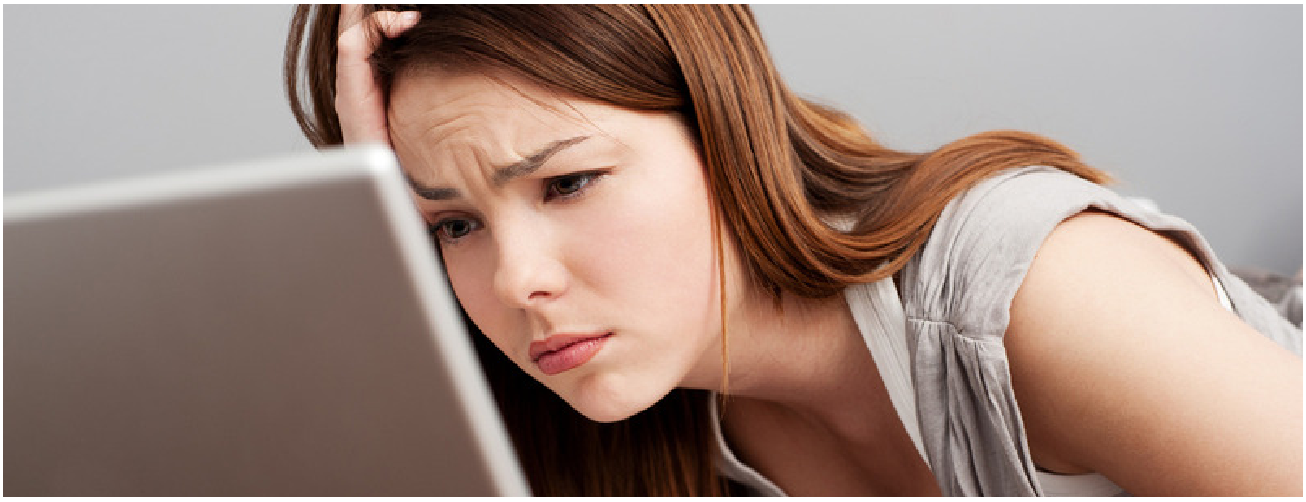
1. **You want to start a business but you don't know where to begin.**

2. **You've already done a lot of the ground work and have started looking for customers, but you want help getting things nailed down.**

3. **You're already running a new business and have started making money, but you are ready to kick things up a gear.**

In this guide, you'll learn about some of the tried and tested methods that we teach at BizBritain, and have used to maximise success rates in over 15,000 startups that have applied to us for funding. These simple fundamentals are easy to implement in any business, and will multiply your chances of success.

Why do most startups fail?



While there are a number of reasons that a new business can fail, most of the time it simply comes down to one or more items on a list of common, but easily avoidable mistakes. At BizBritain we work with thousands of entrepreneurs each year, so we really do know what works and what doesn't when it comes to starting a business.

Common causes of failure include:

1. **Insufficient demand in the marketplace for the product or service**
2. **Not accurately identifying the right target customers**
3. **Failing to properly understand or plan for cash-flow requirements**
4. **Problems with costs or pricing that make the business unsustainable**
5. **Committing to too many overheads early in the life of the business**
6. **Failing to make sufficient sales due to poor understanding of sales & marketing**

You can avoid these common mistakes, but you need to know how to do it...

Each of the reasons listed above can prove fatal to an otherwise promising business. But don't let that put you off.

Armed with the information in this guide, I'm going to walk you through a few simple steps you can take right now to ensure you steer clear of the usual failure points, and maximise your chances of success.

Here's a list of things that you're going to learn about in this guide:

1. **Getting to grips with your business model and how you will actually make money**
2. **Isolating why customers will choose you over your competitors**
3. **Choosing the right legal structure and understanding your legal responsibilities**
4. **Identifying who your ideal customers are**
5. **Knowing and understanding your competition**
6. **Creating a solid business plan & financial forecasts**
7. **Understanding what capital your business needs to survive and grow**

All of these points can be easily addressed and implemented into your business straight away. Once you apply each item correctly, you will start to see tremendous improvements in the performance of your business.

Quite often, just one or two of the items above can make the difference between having a highly profitable, successful business, and struggling to survive.

So the question is this; are you ready to start building a solid, sustainable business that gives you financial security and control over your own life?

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Know your business model

This might sound obvious, but it's amazing how often people don't really understand how their business will work when they're challenged about it. I'm not just talking about having a vague idea around what you want to do; I'm talking about understanding the complete process behind how your business is going to make money. You need to have a solid idea of how you are going to sell your product or service to your customers in sufficient volumes and at a low enough cost to make a profit on an ongoing basis. All the while covering your own living costs, and staying cash-flow positive throughout.

How will your business make money?

Let's imagine for a moment that you're a barber. Simply saying that you quite fancy setting up your own barber shop isn't going to cut it (excuse the pun!). You need to understand every aspect of how you are going to make it viable.

For example in the case of a barber, you need to think about a number of things including: How much you're going to charge per haircut; how many haircuts you can realistically perform each day; how you're going to find and convert enough people into paying customers in the face of local competition; how much money that volume would equate to in daily sales; the combined cost of all your overheads, the timings around when you are going to have to pay for things and so on.

It's very common for first time business owners to massively overestimate the level of sales that they are going to achieve (certainly in the first few months), and underestimate the time and the cost involved in making those sales. Don't fall into this trap. It can be deadly.

It's also very important for you to understand the difference between profit and cash-flow; i.e. the difference between when your business makes a sale on paper and when your business actually gets paid for that sale. It's always best to try and negotiate the shortest possible customer payment terms you can. However this is not always possible, especially when dealing with larger companies (who often expect at least 30 days of credit). If you do offer payment terms to a customer, it's imperative that you fully understand the impact that they will have on your businesses cash-flow.

Finally, something that seems to escape many business newbies, is that keeping your overheads as low as possible for as long as possible in the early days is utterly essential. It's easy to fall into the trap of splashing out on lots of stuff that you don't really need, like shiny new stationery, business cards, and laptops. But buying these kinds of unnecessary items before you have the profit to support their purchase is a huge no no. Don't be tempted, or it could end up being the thing that kills your business. Make sales first, spend money later.

Why will customers choose your product?

People make buying decisions based on what they want, not on what they need. This is why understanding who your ideal customer is, and getting to know their emotional desires and pain points is so critically important.

When you look at the behaviour that drives any sale in its most basic form, the decision is invariably driven by one of two things (or sometimes a combination of both); the buyer wanting to exchange an amount of money to move away from pain, or to create a feeling of pleasure. When you think about it, even the most mundane of purchases can be traced back to one or both of these reasons.

When you understand what the customer really desires, and/or what causes them the most pain, you are able to tailor your offering and focus your marketing efforts to address these issues. When you do this well, buying your product becomes a logical decision.

You will also need to take into account the offerings of any competitors in your market, and find a way to differentiate yourself from them. You could approach this in a number of different ways. Here are some examples of how you could set yourself apart:

Premium version - position your product as a higher quality, more expensive version of what's already out there. Examples would be Rolex watches, or Ferrari cars. There will always be people willing to pay a high price to have the best on offer.

Gender specific version - you could create a specialist version of a product that caters only for men or women. An example here is Diamond Car Insurance, which caters only to women.

Interest based niche - you could tailor your business to cater to people who have a specific interest. A good example could be a sports bar, which is simply a bar that targets people who are interested in sport.

Environmentally friendly - creating an environmentally friendly version of an existing product is a great way to set yourself apart.

Vegan/Organic option - if you are in the food and drink industry, you could specialise in only selling organic products. Whole Foods Market are a great example of a business who do this.

What legal structure will your business take?

One of the most commonly asked questions that I hear time and time again from people who are thinking about starting a business, is whether they should operate as a sole trader or whether they should set up a limited company.

While there are other legal forms that businesses can take such a as partnerships and LLPs, sole traders and limited companies are by far the most common options, so I'll be focusing primarily on these two business types in this guide.

The important thing to remember here is that there is no specific right or wrong answer to which legal form you should take; it really depends on a number of factors. To explain why, let's go through the ins and outs of each option.

Sole Trader

Operating as a sole trader is the simplest option, and comes with the least regulatory and accounting responsibility. All of the profits from the business belong to you (after tax of course), you simply need to complete a self-assessment tax return once a year to declare your earnings to HMRC.

Working out your tax liability is pretty simple. You only pay income tax on your profits (i.e. your total sales minus all of your business expenses). You don't really need to hire an accountant, though you may wish to in order to be sure that you're being as tax efficient as possible, and that you aren't accidentally claiming for things you aren't allowed to.

If you're running a sole trader business full time, you are what is referred to as self-employed. Assuming that you aren't continuing to be employed elsewhere at the same time, you should contact HMRC to let them know that you are becoming self-employed. You can register as a sole trader in a couple of minutes on the HMRC website.

A very important thing to consider when operating as a sole trader is that you essentially are the business. This means that you are personally liable for any trade credit or debts incurred, and any contracts that are entered into as part of the business are actually with yourself as an individual. So if things go wrong, and you go out of business owing lots of money to suppliers, you're the one who is left holding the bag as the saying goes.

In certain cases this could mean that personal assets such as your home are left exposed. This is probably the biggest consideration to think about when deciding what legal form to operate under, and is the key reason why I would only recommend operating as a sole trader in very small turnover businesses.

Limited Company

Setting up and operating as a limited company is more complicated than operating as a sole trader, and comes with a number of additional responsibilities.

Limited companies are required by law to submit a set of statutory accounts every single year, and must also report to Companies House when certain key changes are made to the business.

Unless you have an accounting background yourself, realistically you will need to pay an accountant to take care of these areas for you. Basic accounting costs for limited companies can range anywhere from a few hundred pounds per year up to several thousand pounds depending on the size and complexity of the business.

Unlike in a sole trader situation where you are the business, Limited companies are a separate legal entity in their own right, which are owned by shareholders and run by directors. Legally speaking, any profits generated by a limited company are owned by the company, not you.

Assuming that you are both director and shareholder of your business, there are two ways in which you can withdraw money for yourself. As a salary, paid as remuneration for your services as a director or as a dividend paid out of profits to you as a shareholder. It's also worth noting that as a director of a limited company, you are technically an employee of the business rather than a self-employed person (though this can still be a bit of a grey area depending on how you pay yourself).

Despite the additional complexity and costs involved, there are some very big benefits to operating as a limited company. Firstly, it's normally much more tax efficient. For example, if done correctly you could potentially save yourself thousands of pounds in income tax when compared to being self-employed.

The biggest benefit however is that a limited company has "limited liability". This is an absolutely critical point which revolves around a company being its own legal entity. When a limited company enters into a contract or incurs debt, the legal liability lies with the company, not with you as an individual. So if the business fails, any outstanding debts stop with the company; you as an individual are completely shielded (unless you've signed a specific agreement with a creditor stating that you will personally guarantee their debt, which isn't advisable in my opinion).

If you decide that going limited is the right option for you, before you can start trading you will need to register your company name at Companies House. You can either do this directly using the forms available on their website, or via a formation agent. Unless you know exactly what you are doing, I would normally recommend using an agent. There are plenty of cheap web based services out there that will take care of everything for you for under £20.

What are the other options?

The other options that you may well be aware of are partnerships and limited liability partnerships (LLPs), which I will outline briefly below:

Partnership - A partnership is simply a sole trader business being run by more than one owner. Personally I would tread very carefully with partnerships, as in a lot of ways you are trusting your partner(s) with your own personal financial security. A partnership holds the same personal risks as sole trader business, so your partner could potentially incur debts that you would end up personally liable for in the case of the business failing (I've seen this happen to people before). If you do decide to take this route, make sure that you put in place a rock solid partnership agreement drawn up by a solicitor.

Limited Liability Partnership (LLP) - This is a bit like a hybrid between a partnership and a limited company, and is most frequently used by professional service people like accountants and lawyers. LLPs offer the same simple tax set-up as a sole trader or partnership, but at the same time offers limited liability to the partners. The drawback is that you don't get the same tax efficiencies that you would by operating as a limited company.

So which option do I choose?

Overall the choice really comes down to how much personal risk you are willing to shoulder, and whether or not you are prepared to take on the fixed costs and administration involved with running a limited company. Though my two cents is this; if you're having trouble making up your mind, I'd suggest testing the water as a sole trader, and then registering as a limited company as soon as you start to generate enough sales to justify the costs involved.

Know your market

Knowing your market means understanding who two very important groups of people are; your ideal customers, and your competitors.

Gaining an understanding of exactly who these key groups are, and what that means to your business is absolutely critical, and is often the factor that determines whether your business ultimately fails or succeeds.

Identify your customers

In order to sell your products or services most effectively, you need to be able to create super targeted sales messages that reach your customers on a deeply personal level.

The only way that you can achieve this is by knowing your target customers inside out. You need to be able to get inside their heads and understand what their pains and desires are. People make buying decisions based on their emotions. They buy what they want, not what they need.

You need to be as specific as possible here. The more you define your customer niche, the easier you will find it to locate potential customers and convert them into buyers. You should start by thinking about the wider market that your product or service caters to, then narrow it down.

For example, if you're a personal trainer, you might fall into the common trap of trying to market yourself to a broad undefined audience. After all, everyone needs to get fit, right? ...Wrong.

Taking this sort of scatter-gun approach is a terrible idea unless you have an enormous marketing budget that you're happy to set fire to (even then it's not sensible). It leads to spending large sums of money and returns minimal results.

Instead, take a targeted approach. Going back to the example of a personal trainer, let's say that you're also passionate about tennis, and you really understand the specific fitness routines required to be a great tennis player. An effective strategy could be to sell yourself as an expert in teaching amateur tennis players how to get match-fit.

All of a sudden you've gone from a broad, undefined audience, to one that is specifically targetable. With this information you can start to build up a clear understanding of what your ideal customers desire, what their problems are, and where you can find them.

Research your competitors

Researching your competition is absolutely crucial when starting any business. It allows you to gain an understanding of what's already working in your target market, and gives you insights into current market expectations around pricing and quality. It can also help you to identify where there might be gaps in the market, either with relation to location or the product itself.

Broadly speaking there are two key competitor types that you should look at:

Direct Customers - These are other businesses that are offering a very similar product or service that can be directly compared to yours. For example a restaurant business is in direct competition with other restaurants.

Indirect Customers - These are businesses that are offering a different product or service, but are still satisfying the same customer need. For example a personal trainer is competing indirectly with companies selling home fitness DVDs.

Once you understand your competition, you can use that knowledge to refine your own offering, either by offering something that's better in a specific area (e.g. price or quality), or by offering something that puts a different spin on things.

Plan for success

It doesn't matter what kind of business you're starting; creating a clear plan of action is a worthwhile exercise. At the very least it will help you to get things clear in your own mind. Planning is particularly important in situations where you need to raise external investment or finance. In these cases having a clearly written business plan and financial forecasts is absolutely essential.

Write your business plan

When it comes to writing a business plan, there is no universal answer to how it should be done. The most important thing to understand is why you're writing it, as this will dictate the best approach to take and the most important areas to focus on.

Let's take a look at some examples of different situations:

Business plan for internal use - in cases where you aren't looking to acquire a loan or investment, you can really keep things quite simple. Here it's very much just about reinforcing your own understanding of your business.

Business plan to present to investors - If you're preparing a plan to present to investors, you're going to need to prepare something more substantial. You will need to show the reader/investor how you intend to use their money, and how they are going to earn a return on their investment.

Business plan to apply for a loan - Similarly to preparing a plan for investors, preparing a business plan as part of a loan application will require a lot more detail, and should be written with the purpose of demonstrating to a lender that your business will generate enough sustainable profits to service the repayments of a loan.

Writing a business plan can sound daunting, but doesn't have to be a painful process. There are plenty of templates and resources available online that you can use to help you create one. You also have the option of paying a business plan specialist to work with you to put one together.

There are plenty of options out there when it comes to developing a business plan, so it's worth searching around. For example, at BizBritain, we have free templates that we make available to our applicants, and we will review and help to refine the business plans of anyone applying to us for finance.

Prepare a cash flow forecast

Knowing how to manage your cash flow is one of the most important parts of running a business. Without healthy cash flow, your business cannot survive. In fact, poor cash flow is one of the biggest killers of small businesses.

Preparing a cash flow forecast is a great way to build an understanding of your business finances, and will allow you to see when you will can afford to spend money, and when you should be keeping outgoings to a minimum.

Writing your cash flow forecast is quite a straightforward when you know how, and definitely isn't something to be scared of. I've listed some tips below to help get you on the right track.

Be realistic with your estimates - This is particularly important when it comes to forecasting sales. Most people tend to overestimate their income and underestimate their costs. Remember to be conservative with your sales estimates, and base them on what you can realistically achieve.

Plan for seasonality - Most businesses have seasonal variation in how busy they are. Make sure you take this into account. For example, will your business be more popular during say the summer, or Christmas?

Be aware of timing - It's important to remember the impact of offering credit terms to your customers, and accounting for this in your forecasts. If you offer 30 day terms, you wont get paid until a month after you've made the sale.

Plan for tax payments - Don't get caught out by forgetting to plan for months in which you will have to pay HMRC for things like Corporation tax, PAYE, or VAT (if you are registered). These payments can often be amongst the largest outgoings of a business, but many forget to properly plan for their impact.

Plan for multiple scenarios - It's impossible to predict the future, but you can still plan for as many different eventualities as possible. Create multiple versions of your cash flow forecast using different assumptions.

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When you break it down, a cash flow forecast is made up of 2 main headings; cash coming in and cash going out. Creating one for your business is simply a case of listing the totals for each heading during a month, and then repeating the process for several months into the future.

Often it's best to start with a template spreadsheet using Excel or similar software package. There are plenty that can be found online. At BizBritain we have our own tried and tested template that we provide free of charge to all of our applicants.

Here's a simple formula to remember:

Net Cash flow = Total Cash Income - Total Cash Expenditure

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Inject the required capital

When you’re starting a business, it doesn’t matter what sector you’re in; the chances are that you’re going to have to spend a bit of money to get things up and running. There are many ways in which businesses can source the required funds, ranging from bootstrapping (i.e. self funding through personal savings and help from family) to investment, to business loans and alternative finance. However every business has its own unique needs, and it's important that you understand the options so you can choose the right one for your situation.

Choose the right type of funding for your business

Deciding which route to take when it comes to raising capital depends on a variety of facts, and can often come down purely to preference. Though each route will have its own pros and cons, as well as potential barriers to entry depending on your circumstances.

In this guide I'm going to look at some of the most common types of funding for early stage businesses, including bootstrapping, investment and borrowing.

Bootstrapping - This is the process of self-funding using your own money, then reinvesting the profits from your early sales to grow the business organically. When bootstrapping, it's important to keep your overhead costs to a bare minimum, and to start generating sales as early as possible. Many businesses start out by bootstrapping in the very beginning before seeking external funding.

Raising investment - When your businesses has built up some track record and you are able to demonstrate a valuation above zero, investment could be an option you consider. Investment in this context is when you sell a percentage of your company to a 3rd party, and the proceeds of the sale are injected into the business. It's worth noting that most investors will want to see existing revenue, or solid user numbers before they will consider buying in. Investment can be a great way to raise money in the right circumstances. However the major downside of raising money through investment is with each round of funding you raise, you lose part of your ownership of the business.

Getting a loan - If you don't want to sell off part of your business to an investor, but you need more capital than you can get your hands on via bootstrapping, getting a business loan or raising other debt finance is a great option. There are a multitude of different finance products out there to choose from ranging from straightforward business loans, to more specialist options like asset finance or invoice discounting. The obvious drawback of a loan is that it's repayable, with interest. But as long as your business is generating sufficient sales to cover the repayments, once the loan is repaid you still own 100% of your business (assuming you owned it all to start with).

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Hear from entrepreneurs funded by BizBritain...

I just wanted to say a massive thank you to Keith and to BizBritain. Without BizBritain, I would have never been able to get my own business up and running. Sounds silly but you have given me my dream. So thank you so so much. I'll be grateful forever. Thanks again.

Craig Price
The Style Hut

You have helped to make what could have been a very stressful process run as smoothly as possible. You explained everything clearly and I got the sense that you genuinely cared about me and my business which made me feel at ease from the beginning.

Kerry Lound
Kickstart Learning with Kerry

The process of applying for the loan, filling out the forms and financial workbook was all very smooth. The website is well designed and works very well. I was kept in contact at all stages and dealt with very professionally. I would definitely recommend BizBritain to others wanting to start a business.

Neil Madden
Pando Software Ltd

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Want finance for your business? BizBritain are here to help...

We work hard to get you the finance you need

At BizBritain we've worked with thousands of entrepreneurs just like you, to help them through the process of obtaining finance. We help make what is often a difficult and complicated process fast, simple, and enjoyable.

Our team of friendly, experienced experts are ready to help you take your business to the next level, and get you the finance you need to reach your full potential.

Apply now!

***** Click now to see if you qualify. It's Free, 100% secure, and there's no obligation. *****

Get in touch

E: customerservice@bizbritain.com
T: 0800 888 6118
(Mon - Fri 09:00 - 17:00)

www.bizbritain.com