

Starting your own business

Planning: what type of company works best for you?

The first important choice you will face when starting a business is the legal status of your enterprise. From limited company to sole trader, how you set up your structure at the start can have legal and financial implications in the future.

Below are some of the different types of business structure.

Sole Trader

A person in business on his or her own account is known as a sole trader. If you choose to be a sole trader you will be self-employed and personally liable for any business debts, but the profits are yours to do with as you wish. Some of the essential requirements of being a sole trader are:

- You must register as self-employed with HM Revenue and Customs (HMRC) within the first 3 months of trading. This should be your first action as there is a penalty of £100 if you fail to register in time.
- You will have to complete a self-assessment tax return each year and pay income tax, detailing your income and expenditure, for which you should keep records.
- If your turnover will be more than £70,000 a year you will have to be VAT registered. This means you'll charge VAT on all your goods or services, and will have to complete and submit a VAT return each year. Depending on the nature of your business, your customers or clients may prefer you to be VAT registered even if your turnover is below the minimum.
- You will need to pay national insurance contributions (NICs). You can usually pay these in instalments by Direct Debit if required. The HM Revenue & Customs website has more information at www.hmrc.gov.uk.

Partnership

A partnership is where two or more people go into business together. Each partner is equally responsible for the debts and costs of the business, and receives an equal share of the profits. The essential requirements for a partnership are the same as for a sole trader, but apply to each member of the partnership.

Limited Liability Partnership (LLP)

A limited liability partnership is similar to an ordinary partnership but has the benefits of limited liability for the business owners, giving them some protection if the business gets into difficulties. The essential requirements are:



- You may have any number of members in your partnership with a minimum of two 'designated' members who carry extra responsibility for the business.
- You must register with Companies House and file annual accounts.
- An annual 363s form must be checked and returned to Companies House with a fee. Any changes to members, officers or registered address should be communicated to Companies House.
- Each partner will have to complete a self-assessment tax return each year detailing income and expenditure, for which they should keep records, and pay income tax based on their share of profits.

Limited Liability Company (LLC)

A limited company is a legal entity in its own right, and its finances are separate from those of its owners. It continues to exist even if the owners die or resign, unless it is wound up or struck off the Companies House register. The owners have restricted liability to the value of the shares that they own or any loan or other financial guarantee.

The main types of Limited Liability Company are:

- Private limited companies: these can have one or more members, e.g. shareholders. They cannot offer shares to the public
- Public limited companies (Plcs): must have at least two shareholders and must have issued shares to the public to a value of at least £50,000 before it can trade.

Because of the reduced liability to owners, limited companies are governed by tighter rules and regulations than partnerships or sole traders. Some of the essential requirements of starting an LLC are:

- You must register with Companies House and file annual accounts.
- A private company can now have just a sole director provided, from 1st October 2008, where the director is a natural person. It is no longer compulsory to employ a company secretary.
- You must file an annual tax return with HMRC and pay corporation tax at a minimum of 21%. In addition, employees and directors will have to pay income tax and as Class 1 National Insurance Contributions (NICs).
- An annual 363s form must be checked and returned to Companies House with a fee. Any changes to structure or management should be communicated to Companies House by a director or the company secretary.

Choosing a name for your business

Your business name is a reflection of the quality goods or services you will provide, and can say a lot about your enterprise. However, choosing the wrong name could be a costly mistake as changing it at a later date will affect every aspect of your business.

- Check your chosen name with the National Business Register, the Patent Office, Companies House and Trade Marks Register to make sure it's unique within your chosen business sector. If you infringe on another business's name, they could take legal action to protect themselves.



- Check other meanings of the name you intend to use, particularly if you will be trading overseas. An embarrassing translation could cost you international business.

For more information or to check a business name, visit www.start.biz or www.companieshouse.gov.uk.

Your responsibility to your staff

If you are planning to take on employees, you will need to set up a PAYE system to ensure they are paying tax and national insurance. You will also need adequate insurance and processes and procedures to guarantee their health and safety in the workplace.

Buying a franchise

A popular way of getting into business is to purchase a franchise. A franchise will give you all the benefits of an existing brand and infrastructure, training and support but you retain most of the profits and run the business as your own.

A franchise is a legal arrangement where the franchisor allows the franchisee (the buyer of the franchise) to open a business in its name in return for payment.

Advantages of buying a franchise

- You are buying into an existing brand and market, so will cut out much of the initial market research and brand-building that a new company usually requires.
- The franchisor has vast experience of the market and the products or services, so you can avoid costly experiments or potential mistakes by taking advantage of the franchisor's knowledge base. This can be particularly important when looking for a potential branch location or new market segment.
- Franchisors will provide comprehensive start-up training and support, and most will provide an ongoing training facility for the franchisee and staff to expand their skills. There can be a significant cost saving as outsourced training is usually very expensive.
- You will have access to a tried and tested business formula, a roadmap to success which will show you each step you need to take to achieve your business goals. This will be based on the franchise history and experience, so it's worthwhile looking for an established name rather than a new brand, although there can be advantages to a new name in a tired market.
- You will have the support of other franchise owners, as you will have exclusive territory rights and will not therefore be in competition with each other. This means you can share experiences and tips in confidence, and is also useful when researching which franchise to purchase. Existing franchisees will be able to tell you how good the franchisor is at the things you find important, so make a list of questions and approach them for references before you commit.
- Your franchisor will undertake market research and intelligence to keep you informed of the latest developments in the marketplace. This will help you to grow your business and stay one pace ahead. This is particularly important in a competitive industry.
- An established franchise is a safer business proposition than a brand-new business, so you may find it easier to raise the required finance from your bank or other lending institution.



Disadvantages of buying a franchise

- You will have little flexibility for things like brand or products, as those are chosen by the franchisor based on their business formula. You might find this inflexibility frustrating, so if you are the independent type, a franchise might not be for you.
- Strategic business decisions are out of your control, which could lead to financial risks. If the franchisor decides to take the business model in a different direction to the market, or take a risk on a new product or service, you could end up losing out.
- Franchises can be expensive. You will have to pay a fixed fee for the franchise plus a regular fee or percentage of profits. You may even be forced to purchase your stock from a specific supplier at a greater cost than elsewhere. You will also need to pay your everyday costs like wages. Consult an accountant and find out exactly what your business expenses will be before committing.
- There is always the possibility that a franchisor won't live up to their promises. This is the risk every business owner takes with suppliers, but you can minimise your risk. Ensure you do your homework and research every aspect of your potential franchise thoroughly, including talking to existing franchise owners.

Owning a franchise can be a rewarding, profitable way of getting into business yourself. If you want to be your own boss without the headache of establishing a new face in the market, then a franchise could be the ideal solution.

Testing out your business idea

All great businesses start with a great idea. But how do you know if yours is one of the winners?

Before you've even started writing your business plan, you should undertake a simple marketing exercise to ascertain if your idea is viable. This is called a SWOT analysis, a snapshot of what you want to do and whether anyone will buy it.

SWOT analysis

The SWOT analysis is an extremely useful tool for understanding all sorts of situations in business and organisations. SWOT is an acronym for: Strengths, Weaknesses, Opportunities, Threats. The SWOT analysis headings provide a good framework for reviewing strategy, position and direction of a company or business proposition, or any other idea.

Draw a large square divided into quarters and label the top-left square Strengths. Write in all the strengths of your idea. You can also include your own personal strengths and those of your business partners. Be as honest as possible. Some things to consider include:

- **Advantages of proposition**
- **Capabilities**
- **Competitive advantages**
- **USPs (unique selling points)**
- **Resources, assets, people**



- Experience, knowledge, data
- Financial reserves, likely returns
- Marketing - reach, distribution, awareness
- Innovative aspects
- Location and geographical
- Price, value, quality
- Accreditations, qualifications, certifications
- Processes, systems, IT, communications
- Culture, attitudes, behaviours
- Philosophy and values

Any that does not apply, or are not a Strength, should be moved to the Weaknesses section in the top-right hand box, plus any other weaknesses you identify. Examples of criteria you could include are:

- Disadvantages of proposition
- Gaps in capabilities
- Lack of competitive strength
- Reputation, presence and reach
- Financials
- Own known vulnerabilities
- Timescales, deadlines and pressures
- Cash flow, start-up cash-drain
- Continuity, supply chain robustness
- Effects on core activities, distraction
- Reliability of data, plan predictability
- Morale, commitment, leadership
- Accreditations, etc
- Processes and systems, etc

Move on to opportunities in the bottom-left hand corner. Opportunities are environmental issues that surround and affect your company, product and position. These can include:

- Market developments
- Competitors' vulnerabilities
- Industry or lifestyle trends
- Technology development and innovation
- Global influences
- New markets, vertical, horizontal
- Niche target markets
- Geographical, export, import
- New USPs



- **Tactics: eg, surprise, major contracts**
- **Business and product development**
- **Information and research**
- **Partnerships, agencies, distribution**
- **Volumes, production, economies**
- **Seasonal, weather, fashion influences**

In the last square, list the things that may threaten your business. These can include:

- **Political effects**
- **Legislative effects**
- **Environmental effects**
- **IT developments**
- **Competitor intentions – various**
- **Market demand**
- **New technologies, services, ideas**
- **Vital contracts and partners**
- **Sustaining internal capabilities**
- **Obstacles faced**
- **Insurmountable weaknesses**
- **Loss of key staff**
- **Sustainable financial backing**
- **Economy - home, abroad**
- **Seasonality, weather effects**

Analyse the results

Take a good long look at what the results tell you. Is it possible that your business idea is not so viable after all? Examine the facts and make an objective decision. A failed business can be heartbreaking and financially devastating, so be completely honest before you dive in.

If the SWOT analysis shows a strong proposition, go for it!

What does it take to run a business?

If you are thinking of starting your own business, you will need to take a good long look at your skills to ensure you have what it takes. Working for yourself can be very rewarding but the demands are much higher than being in employment and not everyone is cut out for the life of an entrepreneur.

If you are prepared to take risks, work long and sometimes lonely hours, be ruthless but take criticism, learn from your mistakes and motivate yourself and others when things are tough, then owning your own business might be the right step for you.



Start by assessing your own skills to determine what you can and can't do. Some things to look out for are:

What you can do for yourself

What you can do for minimal or no cost

What you need to outsource

This will give you a good idea of the bigger picture and help you predict where your money should go and any potential skills gaps.

There are many aspects of running a business, but some of the basics are:

Sales and marketing

You will need to research your market, build a brand, secure new customers and retain them. Investing in professional marketing services is one way to go about this, or you can learn the basics yourself and just dive in. Be careful though, as badly-planned or sloppy marketing can be a costly mistake.

Alongside your business plan you should create a marketing plan to plot how you will grow and promote your business.

Finance

You will need the services of a good accountant, but there are many aspects of finance that you will inevitably end up doing yourself, particularly when your business is new. This includes budgeting and forecasting, basic bookkeeping including wages and VAT, managing debt and lines of credit, and stock control. You may require training for these, or you can learn the basics online or through specialist books. There are many inexpensive software packages that can help manage your finances.

HR

If you have staff, you will have to comply with health and safety legislation as well as managing payroll, personnel issues like sickness and holidays, and the myriad other requirements that go hand-in-hand with people management. Most important of all, make sure you and your staff are complying with relevant legislation, have proper contracts and are adequately insured and safe at work. A happy, motivated workforce is the key to successful business.

IT Support

If you are planning to utilise computer equipment, set up a network or build and maintain a website, you will need adequate IT skills. Outsourcing IT support can be expensive, so it's worthwhile learning the basics so you can keep your facilities ticking over in the event of a problem.



Writing a business plan

Banks and other sources of funding will want to see a business plan before they lend you money to start a business, but a good business plan will also help you shape and grow your business.

Your business plan is your goal, your mission statement and your vision. It defines where you are going in the next few years and how you are going to get there. If you don't set out your plans on paper, it's very easy to get sidetracked in the day-to-day running of your operation. A business plan will help you check progress against objectives to ensure you are moving forward as you intended at the start.

Regularly check your resources (staff, equipment, premises, and skills) against your business plan to identify any shortfall that may stop you achieving your goals. If you can see your priorities and objectives, you can make business decisions based on the bigger picture. Remember that today's priorities are not necessarily tomorrow's.

Added benefits of a business plan

It's your business, so it's easy to be blasé and avoid committing what's in your head to paper. But by writing about your business as if you were describing it to an outsider you are forced to ask questions you might otherwise easily avoid, or you may not have thought to ask yourself in the first place. It will also help any potential buyers if you decide to sell your business at a later date.

A business plan instantly lends credibility to any business and can be the key difference between focused success and distractions leading to failure.

Making changes

Your business objectives and priorities may change, or your marketplace could take an unexpected turn. In that event, you will need to revisit your business plan to adjust for the new circumstances.

As your business grows and you acquire more resources such as employees, ensure you incorporate them into your business plan so everyone can see their shared objectives and common goals.

However, you should be wary of any new project or contract that takes you too far away from your original business plan. While there is room for some flexibility, you should not see a business plan as something to be changed lightly. Rather, you should assess the new opportunity in the light of the business plan to decide whether or not it will really help you achieve your long-term business objectives. If you move the goal posts halfway through the game, then you might not get what you started out to win.

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