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Starting a business

Things to consider when starting a business.

Last year 608,110 businesses were incorporated according to data from Companies House. This is a year-on-year increase of 26,937 on the 581,173 businesses started in 2014.

However, figures from the Office for National Statistics show that 55% of new businesses fail within 5 years.

In order to avoid becoming part of this statistic, it is important to lay the groundwork before starting off on the path of business ownership and management.

Testing your idea

While you might think that your business idea is uniquely brilliant and a guaranteed success, you may be in a minority of one. Testing your idea before you invest time and money can prevent future frustration, financial losses and failure.

Market research is an effective way to determine whether your idea is viable. Researching the market for the product or service you are looking to provide can usually be done by spending some time online. There is a plethora of information about most business sectors found on websites of potential competitors, relevant business associations, trade publications and local and national government websites.

In addition to this you may want to spend some time learning about your potential customers, their buying habits, their needs and wants and any gaps in the market. A good starting point is creating customer and sector profiles and working out whether your business can fulfil their needs.

Before starting any research, write a list of questions that need to be answered in order to meet your aims.

An impartial expert can also give you an objective, unbiased response to your research and suggest elements that you may have missed.

We can advise on the financial viability of your new business idea.

Writing a business plan

A good business plan is important if you are looking for funding and support from your bank or external investors.

It can also ensure that you focus on precisely what needs to be done to make your young business a success.

Business plan essentials

1. What the business will do or supply.
2. The structure of the business.
3. How the products or services can be accessed or purchased by customers or clients.
4. Long and short term objectives and financial benchmarks.
5. Timelines to meet your objectives.
6. How you will price the business' products or services.
7. Customer analysis: who they are, where they live, what they do, whether the product or service is an essential or a luxury, why they should purchase from your business.





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8. Competitor analysis: who they are, where they are located, what their pricing is, where they attract their customers from, how they market the company.
9. The location of your business.
10. A marketing plan.
11. Financial forecasts including profit and loss, sales projections and cashflow.
12. Contingency plans.

Structuring your business

Sole trader

A sole trader runs their business as an individual and is therefore entitled to keep all the profits.

They are completely responsible for their business and any losses that it may make.

They must pay income tax, national insurance, register for VAT if taxable turnover is likely to exceed £83,000 per year and complete a self-assessment return each year.

Limited company

A limited company's finances are separate from the personal finances of its owners.

A limited company must:

- be registered at Companies House
- provide statutory accounts
- send Companies House a confirmation statement
- send HMRC a company tax return
- register for VAT if required.

Directors are responsible for running the company and shares in it can be owned by a number of people.

Most limited companies are limited by shares meaning that the shareholder's financial liabilities relate to the value of the shares they own but have not paid for.

Directors are not responsible for debts unless they have broken the law in the running of the company.

A private company limited by guarantee is a company where the directors or shareholders financially back the company up to a specific amount if things go awry.

A public limited company's shares are traded on the stock market.

Partnerships

Limited partnerships and limited liability partnerships define the partner's legal responsibility for any debts the company accrues.

Profits are shared between partners who are responsible for paying tax on them.

General partners in a limited partnership can be personally responsible for a company's debts and are responsible for managing the business. Limited partners are only liable for the amount they invested.

Partners in a limited liability partnership are responsible for debt up to the amount they invested.

We can give you impartial advice on the best legal structure for your company.

Naming your business

Naming a business is no longer as simple as coming up with a name and registering it.

It is wise to check that:

- there are no other businesses with the same name
- the web domain is available
- the name does not have a different meaning in other countries if you are planning to market and supply your products globally.

In addition there are certain words or phrases that you cannot use. Companies House has more information on what you can and can't include.

When the business is operating

Part of preparing to run a business is having an understanding of the tasks you will need to regularly complete in order to be successful and compliant. If you start trying to run a business, and don't plan for reporting, compliance and accurate record keeping, it could turn out to be one task too many.

Records and reporting

All businesses, irrespective of company structure, must register with HMRC, complete and send the appropriate tax returns and declarations annually.

Business insurance

There are a number of insurance options available to companies depending on the nature of the business.

These include:

- professional indemnity insurance
- public liability insurance
- office insurance
- personal accident insurance
- data and cyber risks insurance.

All of these forms of insurance are designed to prevent companies closing should they have any claims made against them.

Cashflow

Managing cashflow effectively is dependent on the owner or directors being organised and planning ahead. Setting targets for credit control is a good way to ensure cashflow is good.

Establishing clear payment terms, invoicing on time and making payment easy for customers will help keep cash flowing.

Using technology to manage cashflow automates the process but it is still advisable to get professional advice in order to maximise cashflow potential.

It is also a good idea to keep your bank informed of how the business is doing as they can extend overdraft facilities and provide loans to cover periods when cashflow may be slow.

Get in touch to discuss your ideas in more detail.