

The Business Planners



New Business Start Up Guide

Contents

Section 1 - Introduction.....	6
Hello	
The Opportunities Are There	
Don't Worry About Mistakes	
Read And Learn From Others.	
Follow the Success Formula	
The Importance of Small Businesses	
The Problems of a Small Business	
The Fundamental Cause of Small Business Problems	
The Best Profit Improvement Ideas for Small Businesses	
Time Management	
Pareto's Law	
Get a Good Product	
Section 2— Goals, Systems, People & Change.....	15
Personal & Business Strategy	
Organisation, Management & Systems	
People Strategy	
Times Change	
Section 3— Marketing Strategy.....	18
Customer Dedication	
Adding Value	
The 2 Ways to Increase Profits	
Is it Sales or Marketing?	
The Power of Leveraging	
Section 4 - Preparing to Market	21
Your Target Market	
Unique Selling Proposition (USP)	
Guarantee it with risk reversal	
Testimonials & Case Studies	
Your Pricing Strategy	
Get Your Fonts RigHt	
Customer Satisfaction Is Of No Use	
Your Business Name	
Geographic Location	
Company Image	
Colour & Shape Guide	
Your Logo	
Stationery	
Your Premises	
Displays	

Shop Window Ideas
Sign Magic
Posters
Telephone Numbers
Freepost & Business Reply
Food & Drink
Dress
Strapline
Vehicles
Opening Hours
Speed of Service
Gift Certificates
What Are The Competition Doing?
Get Feedback
Attitude
Payment Methods
Business Awards
Charity Incentives
Contact Management Database & Lists
Testing, Measuring & Budgeting
The Lifetime Value of a Customer

Section 5 - Lead Generation 36

Brand Marketing v Direct Marketing
Using an Ad Agency
One Step & Two Step Lead Generation
Hard v Soft Offer
Qualification of Leads
Written Lead Generation Tools & AICDA
Be Ready For the Response

Section 6 - A Sales Conversion System 42

Section 7 - The Re-Selling System 44

Section 8 - Other Profit Making Considerations 46

Finance: Managing the Money
What If Questions
Using Barter to Reduce Costs
Make Sure You Get Paid
What If You Can't Pay?
How to Find a Product to Market
Let's begin...

Important!

Copyright Notice

No part of this publication may be reproduced or transmitted in any material, including photocopying or storing it by any medium by electronic means and whether or not transiently or incidentally to some other use of this publication, without the written permission of the copyright owner.

The reader is authorised to use any of the information in this publication for his or her own personal use only.

Legal Notice and Disclaimer

The information provided in this publication is of a general nature. It is not a substitute for specific advice in your own circumstances. You are recommended to obtain specific professional advice from a professional accountant before you take any action or refrain from action.

Whilst we endeavour to use reasonable efforts to furnish accurate, complete, reliable, error free and up-to-date information, we do not warrant that it is such. The authors and the firm disclaim all warranties.

The information can only provide an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice.

No responsibility for any direct or indirect loss or damage occasioned by any person arising from use of this publication and its content can be accepted by the authors or the firm. Users should be aware that they use this publication and its content at their own risk.

A young accountant dies. He immediately goes up to heaven (wishful thinking we know) and meets Peter.

Because Peter is an organised sort of Saint, he goes through the required details...

How old are you?

- Peter

33

- The Accountant

That's impossible!

- Peter

Why?

- The Accountant

I have looked at your time sheets and examined the hours that you have charged your clients - by my reckoning you are at least 97!

- Peter

A fellow has been learning to be a balloonist and takes his first solo flight.

Unfortunately the wind gets up, he is blown off course and is forced to land. He is in a paddock close to a road but has no idea where he is. He sees a car coming along the road and hails it.

The driver gets out and the balloonist says, "G'day mate, can you tell me where I am?"

"Yes, of course", says the motorist. "You have just landed in your balloon and with this wind you have obviously been blown off course. You are in the top paddock on John Dawson's farm, 13.5 kilometres from Condobolin. John will be ploughing the paddock next week and sowing wheat. There is a bull in the paddock. It is behind you and about to attack you."

At that moment the bull reaches the balloonist and tosses him over the fence. Luckily he is unhurt. He gets up, dusts himself off and says to the motorist, "I see you're an accountant".

"Good Grief", says the other man, "you're right. How did you know that?"

"I employ accountants", says the balloonist. "The information you gave me was detailed, precise and accurate. Most of it was useless and it arrived far too late to be of any help."

Let's begin...

Section 1

The Problems & Opportunities Of A Small Business

"Will the people on the cheaper seats clap your hands? All the rest of you, if you'll just rattle your jewellery"

John Lennon 1940 -80: at the Royal Variety Performance, 4 November 1963

Hello

And welcome to our **"New Business Start Up Guide"**.

Lots of people dream of having their own small business. Why work for someone else when there is less job security and they are expecting more and more work from you?

This Guide is designed to highlight the challenges you face and point you in the right direction.

It is often overlooked that to run a successful business, especially in the early years you need...

- Motivation
- Focus
- Capacity to work hard
- Self-reliance
- Support of your family
- A skill or a good product.

Starting your own business takes determination, perseverance and self-discipline. Be careful if you are starting for negative reasons, perhaps just because you dislike your boss or you like drinking in pubs and so thought it would be great to run a pub. Running your own business is a big step. Take time to consider and plan.

It's not playing golf when you want and taking holidays when you want. There can be a lot of admin and red tape to deal with. The customer becomes your boss and they pay your wages.

Of all the tens of thousands of people who still start a business of some sort...

- By the end of the first year, 40% will have failed.
- Within 3 years, 56% will have failed.
- Within 5 years, 76% will have failed.

Of those who go past 5 years, there's no guarantee they will survive the next 5 years.

The Problems of a Small Business

So what are the common problems suffered by small businesses...

- The owners **work too hard** and for too many hours.
- **Personal** objectives of the owners such as hobbies and spending time with their family end up low down on the list of priorities.
- The owners spend too much time doing the day-to-day **technical** work rather than planning and managing the business.
- The owners don't know where their business is **going**.
- The owners don't understand that in order for a business to have a good sale value it must **work without them**.
- Many owners get **frustrated** and simply give up and go back to being an employee.
- The **rewards don't** match the **effort**.

They often face common problems in **managing** their business...

- No **consistency** in delivery of their product.
- Can't **depend** on their employees to get it right.
- They focus on **people** rather than **systems**, which creates problems when the people leave.
- Systems that are in place are **not documented** but in the head of the person who leaves.
- The **owner** ends up doing everything.
- Employees are not as diligent as the owners.
- The owner spends too much time filled up with other people's problems and administration.
- The owner always has to supervise and guide employees.
- They have no idea how they **compare** with other similar businesses and competitors with respect to financial performance or non-financial areas such as human resources, production, marketing, etc. They therefore don't know where there are areas for improvement.

With regards to **marketing** these are common problems for small businesses...

- It's done **ad hoc** rather than in a systematised way.
- They don't know **what** works.
- They don't fully understand **why** their customers buy.
- They don't know who their most **profitable** customers are.
- They don't **measure** their marketing results against costs.
- They take on customers they later **regret** dealing with.
- Bad debt problems.

Then there are the dreaded **financial** problems...

- Relying on short-term overdrafts to try to support long-term growth.
- Over relying on the bank due to **over trading**.
- No system for **projecting** income and expenditure.
- No system for **measuring** key financial indicators against their plan.
- Accounts are not useful to the business.
- Accounts are not produced quickly enough.

However, some businesses are successful and do work without their owners. They are successful in **marketing** and increasing sales, they can **manage** the growth and they manage the **money** successfully. They are doing things that the rest aren't.

The Opportunities Are There

There are lots of opportunities out there staring you in the face if you have the right mind-set. You are in control of your business and **investing in** it can produce far greater returns than is possible through the stock market.

Often, there is a first group of people that never saw the opportunity and the second who did and took action on it. They are people looking for the breakthroughs and the opportunities rather than the problems that exist.

Think of these...

Lewis Crandal sold his half share in Woolworth's to Mr Woolworth for £1200.

Domino's Pizza took an old idea of home delivery and applied it to pizzas.

Ray Croc a 51-year-old salesman took over McDonalds from the McDonald brothers and completely revolutionised it.

You'll need a Good Product

You must have a good idea, product or service to start with. Everything else that follows cannot turn a bad product into a fantastic business success, unless the product is changed. **The business opportunity must be viable.**

The product must be good and you must have **researched** that there is a demand or likely demand for what you are offering. The importance of this cannot be over emphasised. You can maybe sell a bad product to people once, but they won't come back for more.

Certainly, don't be in too much of a hurry to promote until you get good. Otherwise, you'll just **speed up** the rate at which the world finds out you're no good.

The word **product** is used, but everything equally applies to **service** businesses.

It helps if you follow The Success Formula...

- **Believe** you can.
- Create the right **environment** at home and at work.
- **Enjoy** yourself.
- Expose yourself to what's new and keep **learning**.
- **Plan** what you're going to do.
- **Stick** at it.
- Be willing to take **risks**.
- Take **responsibility** for your actions.
- Take **action** – follow Nike's "just do it" slogan. There's a lot to do and you'll need to find the time to do it...

Time Management

With the average 40-year-old man having just 180,000 waking hours left to live, it's important to make the best use of them. Here are the top time management tips for you to apply...

- **Prioritise** your workload.
- Write a priority **action list** at the end of each day, ready for tomorrow.
- See the job **through** – don't start, put it down and come back to it as it wastes time getting started again.
- **Delegate** wherever possible. Especially unimportant jobs.
- Hold **efficient meetings**. Consider if they are needed at all? Holding meetings standing up or on the phone will shorten them and avoid wasted chit-chat.
- Say "**NO**" if you're not the right person to ask.
- Put time aside when colleagues know you're **not to be interrupted** each day.
- Don't do everything to **perfection**. Being 100% perfect takes twice as long as 90% perfection, which is often good enough.
- Use **call logging sheets**, not scraps of paper, to record phone calls.
- Distinguish between **urgent and non-urgent** interruptions. Something that is important isn't always urgent.

Section 2

Choosing Your Business Structure

*"The corporations cannot commit treason,
nor be outlawed, nor excommunicate, for
they have no souls."*

Edward Coke 1552 -1634: Reports of Sir Edward Coke (1658)

The following gives you an outline of the different business structures you can trade through.

Limited Company

A limited company is a separate legal entity from its members. These are the basic facts...

- The business is owned by the limited company, not you.
- You are the **shareholder who owns the business** and with small businesses, the director who runs it.
- It must have **at least one shareholder**.
- It must also have at least **one director**. From 6th April 2008 it is no longer necessary to have a **company secretary** although the position may be retained if so desired.
- The shareholders do not have to be directors. Directors are employees of the company.
- The company pays **corporation tax** on its profits at 20% (2015/16)
- They are governed by company law.

Main Advantages of using a Limited Company...

1. A Limited Company may appear **more credible** and substantial although in reality this is not necessarily the case.
2. The **Liability of its shareholders is limited** to the amount of the share capital issued and so offers protection to personal assets. In the event of company failure and not being able to pay its creditors, your personal assets are protected. However, banks, landlords and others when dealing with a Limited Company will often require **personal guarantees**.
3. A Limited Company has **better borrowing potential** as it can use current assets as security by creating a **floating charge** over its assets.
4. You can use shares to enable different people to have different shares of ownership that they can pass onto the next generation.
5. You can have **different classes of shares** with different rights, such as non-voting shares for someone who wants to invest some money into the company but doesn't wish to take part in the management.
6. Having a **limited company** can change the tax rate of a higher rate tax payer from 40% or 45% to 20%. The exact savings do depend on how much of the profit you leave to reinvest in your business. Taxpayers can also avoid paying any national insurance at all by using dividends. For someone earning £30,000 in a year as a sole trader, the amount of Class 4 NI to be saved is around £2000.

Main Disadvantages of using a Limited Company...

1. Your annual accounts have to be filed at Companies House and are available for **public inspection** as is other information about the company.
2. Directors are personally subject to regulations and can be fined or found guilty of a criminal offence for failing to comply.
3. A company is more complicated to wind up.
4. Generally involves higher accountancy fees as there is more for the accountant to deal with.
5. Taxable benefits on having your car in the company can be substantial.

The best **tax structures** can sometimes end up with one business being split into **two** distinct businesses, one running as a Limited Company and one as a sole trader/partnership to get the best of both structures. You can even have a business with a business structure such as a partnership but with one of the partners being a limited company, although since 2013 this has had some complexities. There is a lot that is possible once you start to put your mind to it.

Partnership

A partnership is two or more people carrying on business together with a view to making profit.

The partners are all **joint and severally liable** for partnership debts, although this does not apply to personal tax bills based on partnership profits.

It is advisable to have a **partnership agreement** to document the agreement between the partners. However, the partnership is often between husband and wife and there is no agreement.

Limited Liability Partnership (LLP)

LLP's are treated like a normal partnership for tax purposes but have the protection of Limited Liability.

A LLP is a separate legal entity and can enter into contracts and deeds, sue and be sued. With normal partnerships every partner has to be party to certain documents and litigation.

Floating charges can be granted over its assets in its own name, which normal partnerships can't do. As with Limited Companies, there is public availability of accounts.

Sole Trader

This is the **simplest form of business** to start where you carry on business on your own account. You are liable to income tax and Class 4 National Insurance on your profits. You can employ people including your spouse for work done.

Your business format is **not set in stone forever** and you can change between them. It is fairly simple for a sole trader to take on a partner and become a partnership and for a partnership to become a Limited Company. There are however more complications with changing from a Limited Company to a sole trader or partnership.

Franchising

With a franchise, you own the business (the **franchisee**) but the style and name of the business is dictated by another business (the **franchisor**).

Franchises are normally run to a particular format and you have the advantage of using proven systems, support and training. It is in the interests of the franchisor for you to be successful. You do however, pay the franchisor for this, normally by means of an **initial up-front payment** and an **ongoing payment**, typically a percentage of your sales.

You can carry on the franchise as a sole trader, partnership or Limited Company. A good source of information is The British Franchise Association (BFA) <http://www.british-franchise.org/>

It makes sense to check whether the franchise is a member of the BFA.

Section 3

Your People

*"It's true hard work never killed anybody,
but I figured why take the chance?"*

*Ronald Reagan 1911- : Interview, Guardian 31
March 1987*

The Employee Red Tape

When you take on your first employee, you move into an area of additional obligations and a lot of red tape. You have to make sure you have the money to pay the wages, perhaps before your customers pay you.

You have to operate a **PAYE scheme** to deal with the tax and national insurance on their wages.

The national insurance includes the employee's national insurance which is deducted from their wages but the **additional cost** to you is employers' national insurance which you have to bear.

You will also find you have other obligations...

- To adhere to the **minimum wage legislation**.
- To adhere to the **Working Time Regulations** that control how many hours a worker can work. Generally, most employees cannot work more than 48 hours per week and must have one whole day off, although the employee (not the employer) has the option to opt out of this. Employees are entitled to 28 days annual paid holiday.
- **Redundancy pay** if you have to lay off any of your employees.
- The employee has a right to a **written statement of the terms and conditions of their employment**.
- To provide **itemised pay statements**.
- To take out compulsory **employers liability insurance**.
- You must not **dismiss the employee unfairly**.
- The employee has the right to join a **trade union**.
- The employee must be given time off for certain **public duties**.
- You must operate a **PAYE system** to collect tax and national insurance from the employee and pay it over to HMRC.
- You must also deal with **statutory sick pay and statutory maternity pay**.
- You have to administer the repayment of **student loans and stakeholder pensions** as well as payment of Tax Credits through the PAYE system.

With all this you may be tempted to do away with employees and just use self-employed contractors to work for you. However, you need to ensure they are properly self-employed. **Just because you say they are does not make them self-employed** and the Revenue are wise to this. There are ways of improving your chances but if you get it wrong, the consequences can be substantial including the Revenue demanding from you all the tax and national insurance that you should have deducted and your chance of now reclaiming it from your employee may be minimal.

It's All about Motivation

68% of businesses have no employees. Of the remainder, 27% have 1-9 employees and 5% have more than 10 employees.

However, if you are going to grow, you're going to need people, whether you have a systems dependent business or not.

Sir John Harvey Jones said he never found a company that used more than 50% of the **potential** of its people.

You can create a system that your employees are capable of following but only if the employees are motivated to do so, will they actually do so. You can lead a horse to water but you can't make it drink.

You must create an environment in which the employees want to follow the rules and are **motivated** to achieve their full potential. People work harder when they are motivated. Just imagine the impact you can make if you change the **attitude** of your employees from "I **have** to go to work" to "I **get** to go to work". You don't want people whose **spirit** dies as they enter the office door.

People's basic needs have to be met first which comes from the **cash** you pay them. However after that, it's all down to motivation.

Section 4

Your Marketing Strategy

"The consumer isn't a moron; she is your wife"

**David Ogilvy: Confessions Of An Advertising Man
(1963)**

Marketing is often the difference between success and failure of a start-up business...

Customer Dedication

Successful businesses all have an understanding of their customers' needs or rather perceived needs and a total **dedication** to their customers.

Their marketing strategy is built around the **customer** – "what must the business be for the customer to choose us?"

Everything they do is focused on the customer and they are continuously improving how they do it.

In order to do this they need to understand the **demographics** (who they are) and the **psychographics** (why they buy) of their customers. Only then can you build your business to serve them.

Adding Value

Customers buy **perceived value**, which is the difference between the **perceived benefits** and the **price**. The more you increase the difference the more value that is added to the customer. The benefits are unlimited but there's only so low the price can go which is why it's often better not to work on the basis of price-cutting.

Explaining that a pair of shoes are made of leather, why they are more comfortable, shock absorbing, will last, etc. will make their **perceived value** higher than the same shoes that are not so described.

The 2 Ways to Increase Profits

There are only 2 ways to increase profits. Either you increase sales or you reduce costs. It's that simple!

However, the amount you can reduce costs by is limited but the amount you can increase sales by is unlimited. So there is far more potential in increasing sales.

There are only 3 ways to generate more sales...

- Increase the **number of customers**.
- Increase the **frequency** of sale to each customer.
- Increase the **value of each transaction**.

More importantly, if you do all 3 together, you can achieve far higher growth.

For example, let's look at the following scenario...

- You presently have 100 customers.
- The average transaction value is £100 for a product that costs you £30 to produce.
- The average frequency of purchase by a customer is 10 times a year.
- Fixed overheads are £20,000

Therefore the annual profit is presently as follows:

Sales $100 \times £100 \times 10$	100,000
Cost of sales $100 \times £30 \times 10$	30,000
Gross Profit	70,000
Fixed Overheads	20,000
Profit	50,000

If we now increase all three **sales generators** by 10%, we get the following results.

Sales $110 \times £110 \times 11$	133,100
Cost of sales $110 \times £30 \times 11$	36,300
Gross Profit	96,800
Fixed Overheads	20,000
Profit	76,800

So profits have now risen by £26,800, a 53.6% increase as result of improving all 3 generators by just 10%. This shows the power of working on **all** 3 areas at the same time to achieve maximum results.

The marketing tools you can use to get growth in all three of these areas can be categorised in the following areas.

- **Lead Generation** – of quality leads.
- **Lead Conversion** into sales.
- **Re-selling** to existing customers.

An **overriding factor** in all these is outstanding customer service, particularly in re-selling to existing customers. Increasing your number of customers is a factor of both how many you gain and how many you don't lose.

Remember never to sacrifice profit for growth. There is the saying "turnover is for **vanity**, profit is for **sanity**".

The Power of Leveraging

If you can measure the result of a marketing activity it gives you enormous **power**.

A very simple example would be if you send 1,000 sales letters out and that produces you 5 new customers which makes a profit, you should do more of it, a lot more. You know that if you want 50 new customers, you simply need send 10,000 letters. Leveraging is about taking something small and using it to create something a lot larger. Often it is using a **small sample** and **extrapolating** the results of it. The larger your sample, the more sure you can be of the result.

The more you test, the more confidently you can predict this result. Many small businesses don't use the power of a sample to expand, often because they don't have a systematized business that can cope with the extra volume.

Your business becomes far more effective by first maximising what you do have and finding the **best** proven way of achieving a result and then simply multiplying that result.

This is true of numerous things in your business whether it be number of cold calls made, sales letters sent, salesmen employed, referrals requested, etc. Almost anything can be leveraged upwards if you get a sample size that you can rely on that you can confidently predict will occur if you increase the sample size.

Section 5

Preparing For Business

*"For I don't care too much for money, For
Money Can't Buy Me Love"*

**John Lennon & Paul McCartney:
Can't Buy Me Love (1964 song)**

Before you can start marketing your product or service there is a lot to consider if you are to maximize the results of your marketing...

Your Target Market

If you try selling to the **wrong** people, you'll **fail**. That's how important it is to get your target market right.

You need a list of prospects that are right for your product or service. Send your sales letter to the wrong list and it's doomed, advertise in the wrong magazine and it won't work, no matter how good the advert or sales letter is. Your target market could be **geographic** or **demographic** (age, sex, business type, etc.).

So first you have to **identify** who your target market is. In doing this, don't try to be all things to all people. It just doesn't work.

Unique Selling Proposition

You need a USP or a UPB (unique perceived benefit). Theoretically a UPB is more customer focused, but either way, you need one.

You need to give your customers a reason to choose you ahead of the competition and your USP is a great way of doing this.

Here are some great USP examples...

- **Fed Ex** – when it absolutely, positively, has to be there.
- **Domino's Pizza** – red hot pizza delivered to your door in less than 30 minutes or its free.
- **Avis Car Rentals** – we're number two, we try harder.
- **Polo mints** – the mint with the hole.

Guarantee it with Risk Reversal

To maximize your sales you need to take away the **barriers that stop customers buying from you**. Whenever a customer buys, they take a risk.

If you remove those risks through the use of powerful guarantees, you'll substantially increase your sales. You must of course have a good product or service.

Here is an example of risk reversal from a horse dealing business...

A couple wanted to purchase a pony for their daughter. They went to one dealer who said if the pony she chose wasn't right, she could bring it back and exchange it for another. The price of the pony was £1000. This is commonplace amongst horse dealers and is their idea of risk reversal. The customer is still locked into having to get another pony from that dealer.

Compare this to what a horse dealer who really understands the full extent of risk reversal...

The dealer says "it's important your daughter is happy with her pony in every way. Please take the pony, let your daughter look after it and try it out for two weeks. I'll provide you with the hay to last during this period. If your daughter is happy with it, pay me for it then. If not, I'll come and collect it, and tidy out your stable".

Powerful risk reversal can increase sales by 300% and the attrition rate will rarely exceed 5%.

Testimonials & Case Studies

If your prospects don't **believe** you, you won't make the sale.

This is where the power of testimonials and case studies comes in. It's praise from your existing customers, the media, other experts or even a celebrity. They are extremely powerful.

You must have systems to collect them and then leverage the power of them by using them in all your marketing materials.

Your Pricing Strategy

You need to decide on your pricing strategy. You'll need to find the price that optimises your profit.

Let's look at an example for a company selling widgets...

Sales 1000 widgets @ £100 each	100,000
Cost of sales 1000 widgets @ £70 each	70,000
Gross Profit	30,000
Fixed Overheads	25,000
Profit	5,000

The company wants to know if it is going to be better off by reducing prices by 10% or increasing them by 10%. The only way to find out is to test. After testing, they find out ...

- Option 1 of reducing prices by 10% results in a 20% increase in quantity sold
- Option 2 of increasing prices by 10% results in a 20% fall in quantity sold.

Which should they do?

It's tempting to go for option 1 with 20% more sales with only a price cut of 10% but let's look at what happens...

Option 1	Option 2
Sales 1200 x £90	108,000
Sales 1200 x £90	88,000
Gross Profit	84,000
Fixed Overheads	32,000
Net Profit	(25,000)
	(5,000)

Raising prices is better. In addition you have less work to do for more money.

Every situation will vary depending on your profit margins, which is why it's important to do the numbers. However, using discount pricing will generally mean you do have to significantly increase sales volumes to make more profit.

Get Your Fonts Right

Using the right fonts in your marketing materials will dramatically increase results. You need to select the fonts you are going to use and use them **consistently** in everything you do. You must understand where to use **serif fonts** and where to use **sans serif** fonts and all the formatting tricks you can use in marketing materials. You don't need an ad agency to do any of this.

Customer Satisfaction Is Of No Use

The **customer** is the most important person in the world, right? If there were two people left in the world and one has to die, you or the customer, who would it be?

Now, we're agreed again that **you** are the most important person in the world.

The problem is that the customer thinks they are and that's why you have to treat them that way if your business is to be successful.

Would you believe that if your customers are **satisfied**, you're in trouble? That's right, you read it correctly...

Let's say you have a 95% customer satisfaction rating. Sounds great, but what it means is that you have 5% going round telling everyone how awful you are. The other 95% felt ok about you so they may shop with you but they **could shop anywhere** — they don't have any **special loyalty** to you.

What's more, a dissatisfied customer is 20 times more likely to tell someone. So if 95% of your customers are happy, you'll have more negative than positive message out in the market place.

It's **loyalty** you should be after, not just **satisfaction**. For example, the typical customer satisfaction question may ask "did you enjoy your stay?" or "were we friendly?" The only answers these give are ones of satisfaction, not designed to find out if the customer felt great and had a memorable experience that creates loyalty. You must use questions designed to find out how loyal your customers are.

Here are typical examples of how most businesses treat their customers and why their customers will never be anything more than just satisfied...

"You'll have to..."

"We've done all we can..."

"That's not my job..."

"Let me transfer you"

"The person who deals with that is on holiday"

"What seems to be the problem"

"Our policy says..."

"I'll have to check if that's OK"

"Why didn't you..."

"Sorry, that offer ended yesterday"

"You don't have to be rude about it"

"Sorry about that" (insincere)

"We're out of stock, I don't know when we'll have some more"

"I'm just doing my job"

Your Business Name

The name of your business or service or product can have a dramatic effect, so give it proper consideration.

You often find **short** names, **plurals** of names and **initials** work to good effect. Ask other people what they think of your name.

Sole Traders and Partnerships can use their surname(s) as their business name or trade with a different name must they must include the proprietors or partners name on their business stationery.

A Limited Company must register its name at Companies House and will only be able to use that name if there is not already a company registered with that name. It can **trade under a different name** but the official name of the company must appear on business stationery.

Geographic Location

If location is critical it is important to get this right **first**, before you start. In some instances location can be so critical that if you get it wrong, the business won't work. Certain pubs & restaurants are good examples.

For an inbound business such as shops, dentists and garages consider the travel time of customers, travel routes and competitors locations.

For an outbound business such as plumbers, electrician and consultants consider the cost/time efficiencies of travelling to the customer.

Business Image

The problem with image is it's often not real. You need an image that is you so that it's honest and credible. People will then trust you.

Do this by asking other people how they see you. Once you know who you really are, make sure everything you do in the business reflects that.

Your **marketing materials** should be consistent with the image you are trying to convey...

- Is the marketing material up to date and state of the art?
- Is the paper quality good?
- Does the logo portray the right image?
- Do the marketing materials reflect the USP?
- Do the marketing materials address common customer queries?
- Do the marketing materials reflect the image you want customers to receive?

Colour & Shape Guide

Just how far you take this guide is up to you. If nothing else it's bit of light relief but colours and shapes can have an impact, so consider these when putting together your stationery and marketing materials...

Shape & Colour	Male/Female	Preference	Association
Blue	Male	High	Reliable, Intelligent
Blue	Female	Low	Depressing, Professional
Black	Male	High	Rich, Elegant, Reliable
Black	Female	High	Sensuous
White	Both	Low	Sterile
Red	Male	Low	Excitement
Red	Female	High	Warm
Yellow	Both	Low	Sunshine, Brightness
Green	Both	Low	Leisure
Orange	Both	Low	Good-Taste, Healthful
Pink	Male	Low	Calm, Relaxing
Pink	Female	High	Therapeutic
Brown	Male	High	High In Quality
Brown	Female	High	Rich, Warm
Circle	Male	Low	Feminine, Soft, Weak
Circle	Female	High	Tender, Loving, Warm
Square	Male	High	Solid, Predictable, Sure
Square	Female	Low	Brittle, Hard, Abrasive
Triangle	Male	Low	Mysterious, Powerful
Triangle	Female	Low	Forceful, Threatening

Your Logo

Your logo is not likely to be critical for a small business, as the type of marketing that is best for small businesses isn't brand type marketing. However, a logo doesn't really cost much, so **get one** and put it on your marketing materials.

Stick to a **single logo** with an easy to understand image.

Make sure it's appropriate, clear and then use it **everywhere** you can.

Stationery

You want some panache and pizzazz, right?

Consider the paper, colour, logo, typeface, strapline and the layout. Do it professionally so you're not seen as a fly by night outfit.

Your business card has 2 sides, so use them both and have a selling message on them.

Your Premises

They should reflect what you are trying to portray with your **décor** and choice of **furnishings**. This doesn't always mean you want them to look expensive, as you may not want people to think they are paying for your luxury premises.

Use posters and blow-ups of adverts and press articles about you inside the building.

Your premises need to be **tidy** both inside and out. An untidy premises infers an untidy disorganised business. How often do you see the team at McDonalds tidying up outside – they know it matters. Tax Inspectors are trained to interview people in rooms without any other files. What this does is create an impression they have all the time in the world to look into your affairs. Take a look at how tidy your premises look and whether it conveys the impression you want.

Not all businesses need special premises, and **many self-employed people can work from home**, creating convenience and cost savings. You may need to notify your house insurers as working from home can change the risk and your mortgage company. However, they are not normally a major obstacle. You could also look at using a shed in your garden and there are many suppliers of garden offices and workshops. Insurance for these will be a bit higher because of there being less security.

Serviced offices are also a very flexible way to take premises without any long-term commitment, often taking a licence for just one month at a time. They also offer services such as typing, reception, furniture, phone lines, etc.

If renting, get a solicitor with commercial experience to look at the lease.

Areas to consider include...

- Length of the lease. Rent level.
- How often and the terms of rent reviews. Restrictions on use of the property.
- Can it be sub-let?
- Can you sell the lease on?
- Who is responsible for repairs and renewals? Who is responsible for internal decorating?
- Who pays the legal fees in connection with the lease? Consider the need for a survey, especially if it is a full repairing lease.
- What are the rates?

Displays

Particularly relevant to stores and shops, all displays must convey a congruent deliberate message. Present goods in a **logical and organised** way. Help the customer with creative displays such as putting pictures of your latest fashions on dressing room walls. You can educate customers with something like a loop video. You should use **every** bit of wall space to promote, advertise and educate.

Shop Window Ideas

You don't have to be a retail shop to have a shop window to promote yourself. It is an equally valid way of attracting customers for other types of business. Try to be **original**. One nice story is of a blacked out window with a small hole to look through which said above it "for men's eyes only". Can you imagine how many people looked through it? Inside were some power tools!

Sign Magic

Check that your signs make customers feel **welcome**. Avoid negative signs such as ...

- Don't Park Here
- No skateboarding
- No Credit
- No Refunds

Use **positive** signs...

- Thank You For Your Business
- Valued Customers of ABC ARE Welcome to Park Here
- Welcome – instead of "Open" on your door.

Posters

A passing motorist can only read 6 words and has 5 seconds in which to work. You need to use strong pure colours with no more than 3 elements in the design and silhouette them against a white background. Use the largest possible type. Pictures work.

Telephone Numbers

If you want a **vanity** number such as 0800 PINESHOP which translates to 0800 74637467, you can't actually get a phone number with the 7 as the eighth (last) digit but you can use it anyway as the exchange just ignores any digits after the seventh digit.

A **FREEPHONE 0800** number is not expensive and will pay for itself many times over. The number simply sits on top of your normal phone number and calls are diverted to it. You then pay for the cost of the call.

It is a must for using in **lead generation marketing** and you can use it for general customer use as well. They also allow you to move around the country and take your number with you. It allows you to appear more than just a local business.

The cost is now very low. For example for £109 per year you can presently get 360 free minutes per month and then pay 2.8p per minute thereafter at www.kendlebell.com and there are no set up costs.

Alternatives are **0845** numbers where the caller just pays the cost of a local call and some of these are available at no cost to you.

Why not use an 0800 number for your fax machine as well and use it as a **Freefax** number.

Freepost & Business Reply

Freepost Handwritten is where the customer adds the word Freepost before your name and then doesn't pay for the postage, you do. It only sends post by 2nd Class mail. It doesn't have to be pre-printed.

Freepost Name is an abbreviation such as just having to use Freepost ABC Ltd and it will get to you. It allows you to abbreviate your address in adverts. It only works by 1st Class mail and costs slightly more than 1st class mail.

Business Reply has 1st class & 2nd Class Options and you have to have pre-printed envelopes or reply cards so can't be used in adverts but can in direct mail campaigns.

Mailsort – is a discount service of up to 30% for pre-sorted mail >4000 letters.

Full details of all these are on the Royal Mail website www.royalmail.com

Food & Drink

Do you offer customers food & drink? A bowl of Quality Street in reception or a mug of tea while the customer is waiting at the garage. Why not introduce the **WOW** factor and provide a **menu** of drinks available. Some firms have been known to have Champagne and beans on toast on the menu. It helps differentiate them and it gets talked about although rarely ordered!

Dress

How you and your staff dress will affect how you are perceived. Dress as appropriate for your business. Have you ever noticed how the Labour front bench are often dressed in blue suits and red ties? It's no coincidence that studies have shown these colours to represent authority and passion.

Strapline

Create your business strapline. It's a concise statement of your uniqueness, benefits and what you represent. It's often part of your USP helps to identify you.

Great examples are "Just Do It" from Nike and "It's the real thing" from Coca Cola.

Vehicles

These will have an impact on how your business is perceived. A builder with a nice clean tidy van is more likely to be perceived as a clean, tidy & responsible builder. Look to use your vehicles to **advertise** your business.

Opening Hours

The more you open the more business you can do. This is why we have 24-hour supermarkets. Of course this may not suit you, but a 24-hour web site, fax line, answer machine and helpline could be promoted.

Speed of Service

More than ever people expect things done yesterday. We live in the **microwave age**. Use email & technology to speed up communication and do things when you say you are going to do them.

What Are The Competition Doing?

Find out all about how they work and what they offer. Call them for their brochures, etc.

Attitude

- A positive can do attitude and enthusiasm can do wonders for your business. It's catching and will come across to your staff and prospects.
- **Smile**, both when you meet people and when on the phone. It makes people feel good and breaks down barriers. If you smile, they'll smile back at you.
- You need to develop a **giving** attitude. The more you give, the more will come back your way. Everything you do is customer focused.
- See the good in things and the opportunities when there's an obstacle.
- Treat others as you would want to be treated.
- Encourage others, forgive others and never let a negative experience effect you for more than 5 minutes.
- Always have something nice and humorous to say.

Payment Methods

Taking **credit cards** just makes it easier for customers to do business with you. Do you have easy payment terms so customers can spread the cost? You should always be looking to lower the barriers of entry if you want to win new customers.

Business Awards

The main trick to winning business awards is to **enter** them. Very few businesses do, so if you make a good attempt you have an excellent chance of winning. It will then improve your credibility massively.

Contact Management Database

A contact management database is extremely powerful. It will reduce your marketing work-load enormously. Two of the off the shelf packages that you can tailor to your own use are **ACT** and **Goldmine**. They don't cost too much and you just can't do direct marketing without this sort of package.

Try the following web sites for more information...

<http://www.frontrange.com/goldmine/>

<http://www.act.com/>

Section 6

Lead Generation

"Those who prefer their English sloppy have only themselves to thank if the advertisement writer uses his mastery of vocabulary and syntax to mislead their weak minds"

Dorothy L. Sayers 1893 – 1957: Spectator 19 November 1937

Brand Marketing v Direct Marketing

The type of marketing that works best for small businesses is **direct marketing**, not brand marketing.

As a small business you need to make every penny you spend on marketing count. To do this you need to be able to monitor the **results** of your marketing activities so that you can test and change them to optimise the results you achieve.

You **can't** do that with brand marketing. You want results and you need to know what the results of the marketing are. **Direct Marketing is results driven.**

Many small businesses don't use advertising, perhaps they've never tried because it seems expensive or perhaps they've tried and it didn't work.

Well, advertising that doesn't work is expensive. Despite this, thousands of small businesses do continue to use advertising that just doesn't work or doesn't work anywhere near as well as it could.

They may have designed the ads themselves or got an ad agency to do the ad but they still don't work. This is because they are all taking the **wrong approach**. They are based on brand or institutionalised advertising and brand advertising just doesn't work for small businesses.

They promote the **name** of the business or product but there are now so many brands out there, it costs a fortune to create a brand and that just isn't appropriate for small businesses. The last thing the customer cares about is your business name. He wants to know what you can do to benefit him.

Brand advertising is characterised by the name of the business as the headline at the top of the ad, a big logo, and list of services, not much copy and nothing to make you get out of your chair to **call now**.

You don't need a fantastic looking ad created by ad agencies for them to work. A great designer ad may win an award, but its **sales** you want to win.

Direct marketing can create **some** brand awareness but that just happens to be an additional benefit, it's not the main purpose of what you are doing.

Some products may need brand advertising, such as cars where the manufacturer typically carries out brand advertising but the local dealer must then use direct marketing on top.

Direct marketing builds a continuous relationship with the customer. It asks people to do something. It could be to request immediate sales, a request for information, a request for a demonstration or meeting, a visit to a retail establishment, etc.

Lead Generation Tools

There are lots of direct marketing methods you can use to generate leads, the best ones are probably...

- Directory Advertising – in the likes of Yellow Pages.
- Print Advertising – in magazines
- Classified Advertising
- Sales letters
- Fax Broadcasting
- Postcards
- Internet Marketing
- Telemarketing
- Press Releases
- Newsletters (especially e-newsletters)
- Seminars
- Networking
- Online Social Networking
- Referral Systems
- Endorsement Marketing

Other lead generation tools you can test include...

- Inserts
- Flyers
- Postcards
- Radio Advertising
- TV Commercials
- Hospitality Events
- Take One Boxes – placed in strategic positions
- Contest Entry Boxes
- Trade Shows
- Audio & videotapes- they have a higher perceived value than junk mail. You can't skim them. Can be good for unfamiliar products.
- Sponsorship
- Door to door selling
- Posters – especially in door to door areas

You don't have to do them all, but the more you do, the more results you'll get. Some can be outsourced, telemarketing being a prime example that is often outsourced.

David Ogilvy in "Confessions Of An Advertising Man" writes ...

"the difference between one advertisement and another, when measured in terms of sales, can be as much as fifteen to one"

John Caples, another advertising genius said...

"I've seen one advertisement sell 19 – 1/2 times as much as another"

That's how important it is to get your advertising as well as all the other lead generation tools right.

You need to know which lead generation tools will work best for you and how to create and use every lead generation tool to its maximum effect. For example, with advertising do you know...

- How to find the best publications to advertise in.
- How to get the best position.
- How to make sure you are at the front of your Yellow Pages section even if your name begins with Z. The Yellow Pages reps certainly won't tell you.
- When and how to add pictures to adverts.

Marketing is crucial to the success of a small business and you must find out as much as you can.

AICDA

AICDA is the process of sale and is the process a lead generation tool should follow...

Attract the attention of the reader – the headline is used for this. It must use not only the right words but also be formatted correctly.

Interest the reader in what you are saying. Opening words will be crucial to this.

Credibility – you must build credibility in what you are saying. It must be believable.

Desire – the copy needs to build desire in the prospect for your offer.

Action – you want the prospect to take action so there must be a call to action, telling the prospect what to do next.

Section 7

Your Re-Selling System

"Accountants are the witch-doctors of the modern world and willing to turn their hands to any kind of magic"

Lord Justice Harman 1894 – 1970: speech Feb 1964

Why Use Re-Selling

It's easy to see business growth as getting new customers but it's often far easier to sell more to existing customers than it is to get new customers.

Studies have shown it costs **8 times** more to get new customers than it does to sell to existing ones. Your existing customers are a valuable asset who already trust you or they wouldn't use you in the first place. And when done in conjunction with getting new customers, you have an awesome sales system.

Re-Selling Has 3 Aspects...

- Increasing the average **order value** from each prospect.
- Increasing the **length of time** the customer remains a customer.
- Increasing the **frequency** of purchase.

Let's say your customers have an average order value of £100, they purchase twice a year and they stay with you for 5 years. Their lifetime value is $\text{£}100 \times 2 \times 5 = \text{£}1000$.

If you could increase the average order value by 10%, get them to purchase one more time a year and stay with you for one extra year, this increases their lifetime value to $\text{£}110 \times 3 \times 6 = \text{£}1980$, nearly a 100% increase. If you do this to **all** your customers, you could grow your business by this amount without any new clients. That's how important it is.

This is why customers are assets, not problems. Try doing without them and see how you get on.

The effect also only works if you work on all 3 aspects. They are so much more powerful when combined. This also excludes the effect of more referrals from regular happy clients who buy from you more often and stay longer.

Research has also shown the following...

- 68% of customers want **more information** from companies they deal with.
- 60% of customers are more likely to buy from a business that **stays in touch**.
- 67% of customers move just due to **indifference** or lack of contact from their existing supplier.
- The average new business never hears from 96% of its dissatisfied clients and the average dissatisfied customer tells 9 to 20 other people about their dissatisfaction.

These facts demonstrate how important re-selling is.

Section 8

Running a Small Business is Taxing

"I believe we should all pay our tax bill with a smile. I tried but they wanted cash"

Anon

Tax Evasion v Tax Avoidance & Why the Taxman Isn't Always Right

In very simple terms, **tax avoidance is legal, but tax evasion is illegal** and you risk prosecution for breaking the law. However, in some sophisticated cases the Taxman has been trying to blur the boundaries and claim some forms of tax avoidance are illegal.

A few examples will show the difference...

- The most common example of Tax Evasion amongst small businesses is making **cash sales** and not putting this money into your bank account or recording it in your accounting records, so the tax man will never know about it, or so you think!
- A slightly more thought out example, may be making up some **forged purchase invoices**. You write out the cheques to pay them with the name of the fictitious supplier on the cheque stub but it's actually made payable to you and goes into a secret offshore account. Again, this is tax evasion and is illegal.
- Choosing to run your business as a Limited Company rather than as a sole trader in order to benefit from lower rates of tax paid by Limited Companies is an example of tax avoidance and is legal.

But it's not always black and white, there are grey areas...

- This may be because the **law itself is in question** or the facts of your particular case are in question. It often arises that HMRC may interpret something in one way, surprisingly to their advantage, but the accountant and the taxpayer may interpret it differently.
- Please remember that **HMRC do not make the law of the land** and they often get it wrong. Be prepared to stand up for your rights if necessary and don't be bullied by them.
- You should fight HMRC on technical grounds, but you need to be very sure of your facts and the law. If you can't come to an agreement with HMRC, the matter normally ends up before the General Tax Commissioners who are an informal independent Tax Court to decide the matter. **Many accountants don't like going to the Commissioners** but they shouldn't be afraid to go if they have a reasonable argument.
- HMRC know it costs you money in accountants' fees to argue with them and you may back down as the tax saved is not worth it after paying your accountant. In these situations look at getting your accountant to work on a **no win, no fee basis** for you.
- This report will point out any grey areas and the risks, so that you are fully informed. **Taking a small, calculated risk can be a legitimate business decision.**

Do Your Tax Planning In Advance

Tax planning needs to be in advance, not after the year-end. Many small businesses will meet their accountant after the year-end to go through their accounts – **that's no good at all**.

Perhaps after the year-end your accountant suggests putting some wife's wages through the accounts to keep the tax bill down - **this can really harm your financial health** and you'll find out why in this report. Get it right at the beginning and you can do it. If not...face the consequences.

Pre year-end tax planning can be useful but you can't beat doing most of the planning before the year even starts. The sooner you act, the sooner you'll save the tax.

An Overview of the Taxes...

The tax year runs from **6th April to the following 5th April**. Don't ask why these dates, it just does. All tax rates and allowances are based on the 2015/16 tax year.

Income Tax (IT)

Every individual person, including children pay tax at the following rates...

- The first £10,600 – this is **tax free** and is known as your **personal allowance**. It is reduced for those earning over £100,000 by £1 for every £2 of gross income above this limit.
- The next £31,785 is taxed at **20%** (taxpayers with primarily a small amount of savings income only, up to £5,000, will pay 0%)
- From £31,786 to £150,000 – **taxed at 40%** (higher rate)
- Everything above that (meaning over £150,000) - taxed at **45%** (additional rate).

The main types of income most relevant to small business owners are:

- The profit you make as a sole trader, or your share of the profits you make as a
- partner in the business.

It helps to explain what this is...

- Your **profit and loss account** is simply all your business income for the whole year less all your business expenses for the year. It is normally prepared on an accruals basis, which means sales count as income whether you've been paid for them yet or not, and the same applies for expenses.
- The **Balance Sheet** is optional for small businesses as it is less relevant for tax purposes. It shows the assets and liabilities of your business on the last day of your financial year. The Taxman may want to see the balance sheet to understand how much money you have personally invested in the business.

- The profit shown on your accounts isn't necessarily the profit you are taxed on. Your accountant will often produce a **tax computation**, changing your accounts profit to a taxable profit. This normally covers items in your accounts

that are not allowed as deductions for tax purposes. Examples are a proportion of your motor expenses which represent the private use of your car, and claims for capital allowances on equipment you have purchased.

Make sure your accountant explains these adjustments to you so that you can agree with them.

- If you operate through a Limited Company, it's important to understand that the Company is a legal person in its own right that pays corporation tax, not income tax. However, you are normally the Director who runs the company and may earn a **salary** liable to income tax as well as a shareholder who receives **dividends** liable to income tax.

Both the salary and the dividend form part of your taxable income, although the Dividends are taxed a bit differently, which will be covered when we get to tax planning with dividends.

- You may have other sources of income that count towards your own individual taxable income such as **rental income** from a property you rent out, **interest on bank and building society accounts** (taxed at slightly different rates), etc. but we're going to be mainly interested in this report on your business situation as this is where the main tax savings will come from.

National Insurance (NI)

- If you are **self-employed** as a sole trader or a partner you pay two types of National Insurance:
Class 2 National Insurance that is fixed at £2.80 per week
Class 4 National Insurance on your taxable profits at: 9% on the profits between £8,060 and £42,385 Plus 2% on any profits over £42,385.
- If you are an employee, and that's you if you're a Director of your own Limited Company, there are three types of National Insurance to worry you. The most common rates, unless you are contracted out of the state pension scheme are:

Employees class 1 National Insurance (paid by you)-

First £8,060 per year – nothing
Next £34,325 – 12%
Everything above £42,385– 2%

Employers class 1 National Insurance (paid by your company)-

First £8,060 per year – nothing
Everything above that – 13.8%
There are exemptions for start-up businesses in some parts of the country.

Class 1A National Insurance (paid by your company)-

Paid on the value of benefits provided by your company – 13.8%

The Self Employed Self-Assessment System

Self-employed people pay income tax under the self-assessment system.

The tax year runs from 6th April until 5th April and you need to submit a tax return by the following 31st January with details of your income. You must do this even if HMRC do not send you a tax return.

Accounts are completed annually, although they don't have to follow the tax year and your accounts can be made up to any date in the year. Accounts to 31st March are treated as if they went to 5th April for tax purposes.

In the first year, the profits from when you started to 5th April are used as the basis of the tax assessment.

To join the system you need to notify the Revenue that you have become self-employed. You complete a **CWF1** form which provides all the information the Revenue need. You should register as self-employed when you start trading, if you fail to register a penalty may be incurred. This form also deals with the setting up of payment of Class 2 National Insurance of £2.80 per week.

To be **allowable for tax**, the expenses of a self-employed person have to be incurred wholly and exclusively for the purposes of the business. A claim can be made for use of home expenses if you work from home. Travel from home to work is not an allowable expense for tax purposes and neither is UK entertainment expenditure.

The onus is on you to pay your tax when it becomes due.

On 31st January following the tax year you pay the balance of tax owing for the previous tax year.

At the same time you also pay a **payment on account** for the next year.

A second payment on account is paid on 31st July.

The payments on account are calculated by reference to the actual tax paid for the previous tax year, although if you think the present years tax liability will be less than the previous tax year, you can apply to have the payments on account reduced. Interest would be due if you make an under-estimate.

For failing to deliver a tax return on time there are **penalties**, starting with a £100 penalty but the penalties can increase substantially if you continue to not submit your tax return.

In addition, interest is charged on late payment of tax and there are also surcharges for late payment on top.

If tax is paid more than 28 days late, the **surcharge** is 5% of the tax due and if more than 6 months late, the surcharge increases to 10% of the tax due.

Corporation Tax (CT)

- It's paid by Limited Companies on their taxable profits.
- The **rate** for profits is **20%** of their taxable profits. Previously the small companies' rate and main rate meant that there were distinctions for companies with profits under £300,000, however the corporate tax rates have now been merged.

Salaries paid to directors are deducted in arriving at the taxable profits but dividends are not.

For basic rate taxpayers, dividends attract no income tax at all, for those in the 40% tax band, there is further tax to pay of 22.5% of the gross dividend and for those in the 45% tax band there is further tax to pay of 27.5% of the gross dividend. The gross dividend less a notional 10% tax credit is the amount of the net dividend paid. Simple!

Capital Gains Tax (CGT)

- It's a tax on gains made on disposing of capital assets, such as shares, selling your business and property, although your main home is not normally subject to CGT.
- The first £11,100 of gains you make in a year are exempt from tax. This is known as your annual exemption.
- Capital gains are taxed at a higher rate of 28% for gains where total taxable gains and income are above the income tax basic rate band of £32,385. Below that an 18% rate is applied. There are various reliefs available that can reduce this.
- Most of the legislation regarding capital gains tax is all about the exemptions and how to avoid it, so you often find there are ways around it or ways to lessen its impact.

Inheritance Tax (IHT)

If you're worth more than **£325,000** dead, there's 40% tax to be paid on the excess.

With the rise in **house prices**, more and more people are being caught and it's often one tax that gets forgotten about. There's not that much you can do when you're dead, but there is something, which this report will explain.

The injustice of the tax is that it's a tax on wealth you have accumulated and already paid tax on whilst accumulating. **Who said taxes were fair?**

Stamp Duty Land Tax (SDLT)

This tax applies on property transactions in the UK.

For **residential property** purchases, it's charged on the sale price as follows:

From £0 to £125,000	0%
Between £125,001 to £250,000	2%
Between £250,001 to £925,000	5%
Between £925,001 to £1,500,000	10%
Over £1,500,000	12%
Over £2,000,000 bought through a company	15%

The **SDLT on commercial property** starts at £150,000 and it also applies to leases as well as to freehold sales. However, there are a number of exemptions from this tax.

Value Added Tax (VAT)

A VAT registered business adds VAT to its sales (output VAT). The vat it pays on goods and services that it buys is known as input vat. The business **pays over the difference** between input VAT and output vat to Customs & Excise.

VAT is normally charged at 20%, although some supplies are charged at 5% (e.g. home fuel & power) and some at 0% (**zero rated**) such as food (but not catering). Some supplies are **exempt** from vat and a business may make a mixture of taxable and exempt supplies that is known as partial exemption.

A business **must register** for vat if its taxable supplies for any 12 consecutive months are above the vat registration limit of £81,000 or where taking over an existing business where the taxable supplies were above this in the previous 12 months. You then have 30 days in which to notify Customs & Excise and are registered from the beginning of the following month.

In addition you can also **register voluntarily** which may be beneficial if your supplies are to vat registered businesses or your supplies are zero rated as it allows you to reclaim the vat on vatifiable expenses without the output vat being detrimental to you.

VAT registration can also add to your **credibility** as a business. If you are not vat registered it may be obvious you are a very small business. Form VAT1 is used to register for VAT.

You must then fill in VAT returns that are normally completed every 3 months, although there is an option to complete them once a year with the annual accounting scheme.

The form shows your output vat and input vat and the difference is paid over to Customs and Excise.

There are also penalties for failing to register on time, incorrect vat return and late payment of vat. Interest is also charged on late payment.

To work out the vat on a vat inclusive figure, **multiply by 1 and divide by 6 (for 20% rate)**.

There are special rules relating to...

- Cars and private petrol
- Entertaining
- Dealing in second hand goods
- Imports & Exports
- Partial Exemption – where some of your supplies are exempt from vat.
- Retail Schemes – for dealing with zero and standard rated sales that can't be identified at the point of sale.
- Land & Property
- Cash Accounting, allowing you to account for vat on a cash basis rather than an invoice basis to assist with your cashflow. Self-supplies

You are likely to have a VAT inspection about once every 5 years but will vary from business to business.

Penalties, Surcharges & Interest

Every tax seems to also have provision for these if you don't do things on time or act illegally.

Operating PAYE

You must operate a PAYE scheme for any employee who works for you based on paperwork that HMRC supply. HMRC do run workshops on operating PAYE. However, many self-employed people will seek the assistance of an accountant in operating the PAYE system for them or in getting them up and running.

New employees need a P45 or sign a P46.

At the end of the tax year you have to complete an end of year PAYE

Return P35 and P14/P60's for each employee as well as a P11D or P9D return of employee expenses and benefits.

Section 9

Finance: Managing the Money

"Few have heard of Fra Luca Pacioli, the inventor of double-entry book-keeping: but he has probably had much more influence on human life than has Dante or Michelangelo"

Herbert J. Muller 1905 – Uses of the Past (1957)

Many small business owners lack an understanding of how to manage the money in their business. The books can seem like a chore to do when you get a spare few minutes and you possibly have no understanding of the accounts that are produced for your business.

If you can't measure it, you can't control it. This is why you need a system to deliver the figures you need to control your business.

The Accounting System

You need to keep records by law to allow you to correctly complete your tax return.

For the self-employed this includes a record of...

- All amounts received and spent in the business with a description of each.
- Where the business involves trading in goods, all sales and purchases of goods in the trade.

Whilst not legally required, it makes it easier to keep track if you have a separate business bank account.

You need to keep your accounting records for 5 years and 10 months after the end of the tax year.

The Bare Minimum...

Exactly what you need in your accounting system should be discussed with your accountant and the exact bookkeeping system will depend on the type of business but as a minimum it would normally include...

1. A Cash Book.
2. A Petty Cash Book.

The receipts and payments should be **analysed** and many stationers will stock these books.

For small businesses, analysing of receipts is normally easy, often having one column for sales and another column for any other receipts (such as money introduced by you, or interest received). There are more different types of expenses and you will need different columns for different types such as goods for resale, purchase of assets, personal drawings and overheads. The overheads will normally require analysis in different columns (e.g. motor expenses, rent, telephone, stationery).

More complex businesses may also require the following...

- **Sales Day Book** – to record details of sales invoices raised when selling on credit.
- **Sales Ledger** – to keep track of what each customer owes you.
- **Purchase Day Book** – to record details of purchase invoices received when purchasing on credit.
- **Purchase ledger** – to keep track of what you owe to suppliers.
- **Wages Book** – showing gross pay and tax and national insurance deductions for employees.
- **Stock records**, especially an end of year stock take.
- **Nominal Ledger** – the hub of a double entry bookkeeping system that brings together all of the accounting records and from which a profit and loss account and balance sheet can be produced.

As well as the records, you need to keep your cheque stubs, paying in books, bank statements, invoices and VAT returns.

To be more specific you need to consider the following about your accounting system...

Generally

- Does the system produce **reliable information**?
- What do you like and dislike about the system?
- Is the information produced **helpful** in managing the business?
- What other information would you like that you don't get at present?
- Do you use the principle of **segregation of duties** throughout the financial system to reduce the risks of fraud? For example, is the person who signs for deliveries or approves purchase invoices different to the person who writes out the cheques? Of course, if you're the owner doing both, that's OK from a fraud point of view.
- Are the accounting records kept **up to date**?

Computerised Accounts Packages

There are many products on the market suitable for small businesses. The more transactions you have, the more use a computerised system will be. An accountant will then be able to offer more business advice. However remember that Garbage In = Garbage Out. Among the front runners are...

Sage

TAS Books

Quick Books.

You need to consider...

- Do you and any staff who use it know **how** to operate it?
- Is a **hard copy** kept of the audit trail in case of back up problems?
- Are there **passwords** or security procedures needed to access the package?
- Are proper **back up procedures** in place?
- What if it goes wrong? Are there any back-up plans?

Online packages are also now available.

Internal Controls

As your business grows and develops you will need to put in place more controls to ensure all sales are recorded all amounts spent are for goods and services actually received.

Management Information

To manage the business you need to know your...

- **Key performance indicators** – what pieces of information are key to understanding how the business is performing. The key indicators will vary between businesses.

Examples of key performance indicators...

Gross Profit by product

Debtor Days

Profit and Loss Account

Creditor Days

Key Financial Ratios

Net Profit %

Current Ratio

Return on capital %

Acid Test Ratio

Return on assets %

Gearing

Operating Profit

Assets to Sales

Your accounting systems should **monitor more than just your money** and these may well be part of your key performance indicators. For example...

The number of customer complaints.

Conversion of sales leads to customers.

Orders delivered on time.

Quality control rejections.

- **Breakeven point** – at what level of sales do you breakeven and how does this work out on a weekly, monthly and annual basis. You should build into this the level of profit you need to live.

For a **business selling products**, the breakeven point is calculated as...

$$\frac{\text{Total Overheads}}{\text{Gross Profit Margin}}$$

The **overheads** are all the costs of running the business such as motor expenses, rent, staff costs, etc.

Gross Profit Margin is sales less costs of the actual product. If you sell for £100 and the product costs £70 this is a £30 gross margin that as a percentage of the sale price is 30%. This is different to the **mark up %**. The mark up is still £30 but it is a percentage of the purchase price, being $30/70 = 42.86\%$.

For example if your overheads are £50,000 and the gross margin is 30% the breakeven level of sales needed is $50,000/0.3 = 166,666$.

For a **service provider** who doesn't have products there is no gross margin to worry about. The service provider will know what level of overheads they need to cover and how much profit they need to make to live. If these two figures were £10,000 and £30,000 respectively, he knows his sales need to be £40,000 per year. From there he can work out his minimum hourly charge out rate. For example, if he works for 47 weeks of the year and can work for 30 hours per week, this gives 1410 chargeable hours per year. The breakeven hourly rate is therefore $40000/1410 = £28.36$ per hour.

Remember those people running a service business cannot charge for every hour as they also spend time on admin, marketing, etc.

The minimum charge out rate just to cover the cost of **employing extra staff** is calculated as...

$$\frac{\text{Gross Salary} + \text{Employers NI}}{\text{No of chargeable hours}}$$

- **Projected operating budgets and cash flow forecasts.** They need to be updated regularly.

What If Questions

Once you know all the above, you are in a powerful position to be able to ask “**what if**” questions about the business. You can now **measure the impact** on your key performance indicators, breakeven point and projections.

For example...

- **What if** you increased prices of certain products by 10% and the quantity sold fell by 10%?
- **What if** you could sell 2 more units a week at the existing prices by spending £1000 on marketing?
- **What if** your employees worked 2 more hours per week?
- **What if** your staff costs rise by 3%?
- **What if** you took on another employee?
- **What if** you raised your charge out rates by 10%, how does that change your breakeven sales level or number of weeks you need to work?

Section 10

Cost Controls & Expense Minimization

"Take care of the pence and the pounds will take care of themselves"

William Lowndes 1652 -1724: In Lord Chesterfield Letters to His Son (1774)

Cutting costs will not necessarily improve profits if the quality of what you offer suffers. However a good financial information system will provide you with relevant information to help you make cost cutting decisions. The following are proven ways to control costs and reduce expenses...

- Sometimes, a high volume profitable business could make cost savings but the volume of their business actually hides that fact that there is room for further cost savings. You need to measure in detail, not globally in order to identify all areas you can save costs.
- It is sometimes necessary to **spend money in order to save money** in the long term. For example, investment in machinery or redundancy payments.
- Controls can help to reduce costs. For example, portion controls, stock controls, cash controls.
- **Measuring the efficiency** of individuals or departments can identify where there is room for improvement.
- Having budgets helps to identify when costs are out of control of something is going wrong. The best way to budget is not "what did we spend last year and add 5%" but by starting from zero and deciding what you should be spending in each area.
- The lowest price isn't always the best price when quality suffers.
- Changing the **sales mix**, for example in a restaurant can reduce wastage of products with a limited lifespan.
- A limited menu will help sell more of those items.
- Consider joining a **buying group** in order to take advantage of consolidated buying power.
- **Review all your standing orders and direct debits.** Unless these are reviewed on a periodic basis, some can continue that you no longer want.
- When making capital expenditure are all sources of finance considered including **grants**.
- Never sign up at the first meeting. Take time to consider however good the deal looks.
- Always ask for a **free trial**.
- Do **research** to make sure you buy the right product.
- Always **read the small print** on order forms.
- Try to reduce **frequency** of purchases.
- See if any items can be **outsourced** or a subcontractor used to save costs.
- Weigh up the **costs and benefits** of all items.

- Take advantage of **free consultations** from professional advisors.
- Offer to **settle bills early in exchange for a discount** when you buy.
- There are hundreds of **grants** available for businesses to offset against expenditure. Check you're not missing any. Business Links are a good source of information on grants.
- Many government agencies offer free or low cost business advice when you are starting out.
- Are the advantages and disadvantages of buying **outright, HP or leasing** capital equipment reviewed before each decision?

And For Some Specific Expenses...

- **Labour costs** can be controlled by controlling overtime with planning and scheduling, labour saving equipment and improved layouts (e.g. drive through windows). Improved employee retention reduces recruitment costs.
- Move employees onto **yearly hour contracts** to improve productivity. For example, rather than 48 weeks, 5 days a week, 7 hours a day, change the contract to 1680 hours a year. Then you can use staff more in busy periods rather than paying overtime. It gives staff blocks of time off and they don't have to sit around doing nothing and being bored.
- Consider an appeal against your **rates assessment**. Many are higher than they need be.
- **Rents** can be negotiated in times of property crashes. You could ask for a lower rent in exchange for a longer lease.
- **Bank charges** and interest payments reviewed for accuracy. There are software programs that will do this and consultants who offer a checking service?
- **Leasing and interest costs** should be reviewed regularly to see if better terms can be obtained.
- **Advertising** – send camera-ready artwork with a cheque for 20% of the rate card price and a letter authorizing them to cash the cheque and run the advert whenever they have space. Many publications have space left they need to fill and something is better than nothing.
- Can any of your staff be moved onto a **self-employed basis** to save employers national insurance costs as well as holiday pay, sick pay and maternity pay costs?
- **Phone costs** – least cost routing can reduce phone bills by as much as 40%.
- A small business could do away with a separate fax line and use a **fax to email** facility whereby faxes appear in your email. Type "fax to email" into a search engine and many providers will come up.

- Bank Charges...

- Always negotiate the charges with your bank.
- Use BACS – charges will be cheaper than paying by cheque.
- Don't have more accounts than you need.

- Most banks offer free banking for at least a year and maybe 18 months to small businesses. Have you considered a change of bank?

Finally, the largest expense is often **tax** so use a great accountant who will slash your tax bills.

Whilst fiscal responsibility is OK **don't waste all your time looking for the pennies on the ground.**

Stock Controls

The costs of holding stock are...

1. The money spent on it that is tied up and could be used elsewhere.
2. The risk of the stock reducing in value if it becomes obsolete or is perishable.
3. The risk of theft or damage.
4. The cost of storage.
5. Having to manage and organise it.

Stock levels need to be **minimized** without running out of items so that you can't supply what the customer needs. You therefore need a **stock control system** to get the balance right.

The best stock level to hold is normally one that keeps the level of stock necessary to support your **normal level of trade**. By doing this you will be able to supply what your customers want most of the time without the stock costing you too much. The following tips will help with stock control...

- Produce **sales forecasts** so that you know what stock levels to hold to meet that demand.
- **Speed up your production process** as much as possible by developing good supplier relationships.
- If you never run out of stock, you're probably holding too much.
- Form **reciprocal relationships** with non-geographically competing businesses to supply each other if you run out of stock.
- Monitor your re-order levels.
- Reduce duplication of stock holding that occurs with multiple stock holding locations. Try to **keep stock in one place** as much as possible.
- Try to buy stock on sale or return, which will allow you to hold more stock without any risk or cost. Having a preferred supplier may make this more possible.
- Apply **Pareto's 80/20** law to stock – concentrate on the 20% of stock lines that probably make 80% of your sales.
- Only go for bulk discounts if they are beneficial after considering the cost of holding the extra stock.
- **Regular stock takes** on the same day each week can help to determine usage levels.

Section 11

How to Make Sure You Get Paid

"You can't make a profit out of customers who can't or won't pay"

Never forget that customers who can't or won't pay **are no good** to you. The exception that proves the rule is of course if that customer refers stacks of business to you.

The very first thing to consider is do you want or need to supply on credit at all. Only 20% of businesses pay on time. Cash on delivery avoids the need for debtor controls. Perhaps you need to start offering credit card facilities to make this possible.

That said, it is still necessary in many businesses to supply on credit if you want to maximize your sales.

If you offer credit for sales, the starting point is to have pre-printed **credit enquiry forms**. They should collect the following details...

- Name and address of proprietor.
- Type of trade.
- Length of time in business.
- Banker's name & address.
- Two trade references name and address.

You must **follow up** the bank and trade references supplied. Let them know that amount of credit involved. It can often be a case of looking out for what is **not** said.

For larger amounts of credit, you should also carry out a credit check or do a search at Companies House. Dun & Bradstreet can be a good source for credit checking.

To then ensure you get paid as soon as possible and have no problems, follow these types of proven procedures...

- **Early settlement discounts rarely work** and even slow payers start deducting them from their payments.
- Set a low credit limit to start with and the review it as necessary.
- Be careful of dealing with **Ltd Companies**. If there is lots of money at stake try to get a personal guarantee from the owners.
- Get the order in writing.
- Have **written business terms**. You must bring your terms & conditions to the customer's attention before the contract is made. It will be the contract even if they are not signed if they are not rejected.

- Have a **contract** that covers the following...

- Price
- Payment Date
- Description of goods/services.
- Right to interest.
- Name & address of the seller and buyer.
- Status of seller and buyer such as Ltd Company, Sole Trader or Partnership.
- Date of the contract. Title and risk in the goods – the customer owns the goods as soon as a contract is made unless the contract has a reservation of title clause.
- Exclusion of liability clause – it must be reasonable to stand up in law.
- A contract can be verbal but there is nothing like having it in writing for evidence.

- Get **proof of delivery** or get the job signed off.
- Get the **invoice correct** when you raise the invoice. A wrong invoice can be an excuse to delay payment.
- Put a **stop** to anyone over the credit limit you set them.
- Invoice **as soon** as you make the sale.
- It helps to find out your customer's **supplier payment policy**. Raising an invoice 1 day earlier can mean you getting paid 30 days earlier if they only have a cheque run once a month.
- Ask for staged payments on larger jobs.
- If there is a dispute, try to agree a % of the invoice to be paid now.
- You need an accounting system that records your debtors that you review on a weekly basis and act quickly.
- Always send a **statement** out first. Some customers only pay on statements.
- Start with a **phone call** after the statement.
- If there is a problem, look into it. Remember that an estimate is just that but that a **quote is actual**.
- Chase debts around once every 10 days.

- For the **obstructive debtor** who you can't get hold of, ask for a call back at a time agreed by his firm. If it doesn't happen, move to a letter.
- **Letters** should be professional and polite but firm and getting firmer the more letters you send. This will help you with any court action taken. Some people only pay when they get a debt collection letter.
- If you are told the **cheque is in the post** and it doesn't turn up, the force of the letter should increase.
- The approach you then take has to be decided on a customer-by-customer basis. If the **customer has no money**, you need to consider if it is worth taking the case to court. You do have six years within which to take court action.
- If the customer makes you an offer for less than the full amount, you should write "**without prejudice**" on any reply when negotiating. This cannot then be used against you in court.
- If the customer can't pay, you could negotiate a **payment schedule**. Get it agreed in writing and look to get post-dated cheques or a standing order set up.
- Don't **threaten** anything you won't carry out as they will never take you seriously again.

- Keep a **log of conversations** had with the customer when chasing the debt. You can refer to these in subsequent conversations.
- It can help with large customers to let the **user** of your product or services within the company know you are having difficulty being paid. They may be completely unaware and can put pressure on the payment department to process payment.
- When taking court action against a partnership, all partners are **joint and severally** liable personally. This means they are all individually fully liable for the debt should the partnership or any one of them not pay.
- When you obtain **judgement**, you still have to collect payment if it is not forthcoming. There are various methods to help with this although none are guaranteed to get you your money, especially if the debtor doesn't have the funds to pay you...
 - Enforcement by an enquiry agent, Court bailiffs of Sheriffs
 - Attachment of Earnings for employees
 - Charging orders on property owned by the debtor.
 - Third party debt order.

With individuals you can proceed to issue bankruptcy proceedings against them if they do not pay and with Limited Companies a Winding Up Order. However, these procedures do involve significant costs on your part that you may not recover if the debtor really can't pay.

Interest – since the Late Payment Of Commercial Debts (Interest) Act 1998, small firms have the legal right to charge interest to large firms who exceed their credit terms. Since November 2002, all firms are able to charge interest to any other firm.

What If You Can't Pay?

It happens, often through no deliberate fault of your own.

If you get into a position where you can't pay, try to **pay what you can and keep in touch** with your creditor. If you do this and they stick by you it can lead to an even more rewarding relationship for both parties when you recover.

If you get into difficult times, look to cut back to get through and survive. Cut staff, cut your square footage, cut back on everything and negotiate with suppliers. Pay the suppliers you need most first.

Section 12

Minimizing Your Risks

"I am convinced that He (God) does not play dice"

Albert Einstein 1879 – 1955: letter to Max Born, 4 Dec 1926

Your business is always at risk from various angles. You need to try to minimize the risk of the following and have procedures and crisis plans in place to deal with them.

This is a list of the most important risk aspects to consider...

- Reliance on key staff.
- Reliance on key customers.
- Reliance on key suppliers.
- Is there a partnership or shareholders agreement in place?
- Is there an IT strategy and does it cater for IT developments, viruses, system failures, back up procedures and Data Protection Registration? Is there insurance cover for an IT disaster?
- Do stock levels cater for peaks & troughs in demand?

- Do you need **insurance** for...
 - Public Liability Insurance - against claims from members of the public
 - Are major business assets insured?
 - Keyman insurance – against the death or absence of a key employee or director.
 - Building Insurance – if you own the freehold. This should be for the rebuilding cost, not market value.
 - Stock
 - Business Interruption – to cover you for loss of profits if something happens and your business is interrupted through no fault of your own, such as a fire, theft, etc.
 - Credit Insurance – against bad debts.
 - Directors and officers insurance against any claims made personally against them for breach of duty.
 - Employer's Liability – this is compulsory if you have employees.
 - Engineering Insurance – against mechanical and electrical breakdown of machinery.
 - Fidelity Insurance – against employees' theft or dishonesty.
 - Fire Insurance – and other risks such as flood, storm damage, etc.
 - Plate glass insurance – for shop fronts.
 - Goods in transit insurance.
 - Legal expenses cover – to cover legal fees in disputes.
 - Product Liability – against claims arising from defective products.
 - Professional Indemnity – against claims for negligence. Typically applies to many professions such as accountants, solicitors, architects, doctors, etc.

- Travel insurance – against business travel by you or your employees.
- Working from home.
- Permanent Health Insurance – to compensate you for loss of income if unable to work.

You can approach an **insurance broker** to discuss what insurances are going to be applicable to your own situation and how much cover you require.

Section 13

How To Raise Finance

"A bank is a place that will lend you money if you can prove you don't need it"

Bob Hope: in A. Harrington Life In The Crystal Palace (1959)

Start Up Finance will be needed for...

- Premises
- Equipment
- Goodwill if purchasing an existing business
- Installation of utilities
- Legal and professional fees
- Stationery
- Advertising and publicity
- Insurance
- Stock for resale
- Wages of employees

Then as you **expand**, further finance may be necessary to support any of the above that may increase before you make the sales and get paid. Businesses that are profitable can go bust if they don't have the appropriate finance arrangements in place to deal with expenses that need paying before their customers pay them.

You may have cash flow difficulties caused perhaps caused by needing working capital for debtors and stock or seasonal business variations.

You need to try to match the appropriate source of finance for what you are trying to achieve. Generally, long term finance for long-term investment and short-term finance for short-term working capital requirements.

How to Get Your Bank to Say "Yes"

Banks are the major source of finance for small business in the UK. When applying for finance from your bank it helps if you follow these procedures...

- Always produce a **business plan**. The main areas that need to be covered in a business plan are...
 - The management team background with details of qualifications and experience.
 - The type of business.
 - Previous trading history.
 - Details of the market in which you are going to trade.
 - Likely extent of the competition.
 - How you will market your business.
 - A cash flow forecast for at least the first 12 months that demonstrates you can meet the loan repayments and a project profit and loss account and balance sheet.
 - Your break-even point.
 - A SWOT analysis of Strengths, Weaknesses, Opportunities and Threats.
 - Details of any expert advice you have sought.
 - How much you want to borrow and over how long.
 - Commitment from the borrower.
 - What other sources of finance you will be using.
 - Security being offered.
 - What savings, investments and other assets you have.

- Produce a **2-page summary** of the plan.
- Ask for a **25% longer repayment** than you need and **10-20% more money** than you need.
- Send the plan to banks with an invitation to **visit your premises**.
- **Prepare** before meeting the bank manager. Think of the questions that are likely to concern him and have your answers prepared.
- Get the agreement in **writing**.

- Always **negotiate** the interest rate and terms after the offer has been made, not before. There is normally an arrangement fee of at least 1% for bank loans.
- Offer a **charge on assets** rather than personal guarantees.
- Try to **avoid personal guarantees** but if you have to give them ensure they are limited to the amount of the loan.
- Do not agree to too much security – only agree to the **bank's maximum exposure** to loss.

It helps to keep a good relationship with your bank and you can do this by...

1. **Keeping to agreements** made – making payments on time, not going over your agreed overdraft limit, etc.
2. If you are going to go over the limit or default on payment, **warn them in advance**.
3. If there is **bad news**, let them know and let them know what you are doing to do to remedy the situation.
4. Supply them with any information they require **on time**.
5. Try to prepare the bank in **advance** for requests for additional finance.
6. Borrow for the right reasons.

Overdrafts are normally reviewed annually.

Bank Loans may be secured or unsecured. Secured loans are just like a mortgage with re-possession of the secured property possible in the event of default. The property could be your home. The loan may be used for a totally different purpose to the property on which it is secured.

The security may be a second charge on the property meaning that another lender has the first charge and the second lender only has the rights to any sale proceeds after the lender with the first charge. A lender with a second charge is therefore likely to charge a higher interest rate as would a lender of an unsecured loan.

Mortgages are the usual way of financing the purchase of commercial property with the loan being secured against the property, giving the Mortgage Company the right to repossess the property in the event of you defaulting on mortgage repayments. They tend to be for 10 to 25 years in length.

Enterprise Finance Guarantee

Under the Enterprise Finance Guarantee, the Government guarantee lending to viable businesses to help them get the working capital and investment that they need.

It supports bank lending of 3 months to 10 year maturity and is available to UK businesses with a turnover of up to £41 million where they are not easily able to access the finance they need. It is available for finance of between £1,000 and £1 million.

The guarantee can be used for new loans, to refinance existing loans where the loan is at risk due to deteriorating quality of security, or to convert an existing overdraft into a loan to release capacity to meet working capital requirements. It has also been expanded to cover invoice financing and overdrafts.

Delivery of the Enterprise Finance Guarantee and the decision on whether or not it is appropriate to use it in connection with any specific lending transaction, is fully delegated to the participating lenders. There is no automatic entitlement to receive a guaranteed loan and nor is there any pre-qualification process for it.

Factoring

Factoring is offered by banks and finance houses. The factor buys the debts off of you, paying you a high percentage such as 80% up front and then the balance when the customer pays the debt in full. They of course charge a fee for this. They are likely to charge 2-3% over base and a service charge of between 0.5 – 3% of your turnover, making them a potentially **very expensive source of finance**.

They can also provide other services such as...

- Taking over the sales ledger administration.
- Assessing credit risks.
- Exporting assistance.
- Invoice Discounting

Credit protection – for a further fee the factor guarantees 100% protection against bad debts. This is known as “non-recourse”.

Factoring your debts can be a good source of finance for those businesses that really need the money to help them grow. Viewing them as a finance source of last resort is probably the best approach to take.

Invoice Discounting is similar to factoring, but all that is supplied is the finance facility against the invoices. There is no involvement with the sales ledger administration and the customer does not know the invoices are being discounted.

Hire Purchase & Leasing

With **hire purchase** you obtain the goods or equipment and make repayments (normally monthly) under a hire purchase agreement to cover the cost of the goods plus interest over a period of time. You own the goods or equipment once all payments have been made. The interest rate is often higher than for bank loans.

Leasing – there are two types, **purchase leases** which are in essence just like hire purchase and operating leases. With **operating leases** you pay a rent for the use of an item and sometimes at the end of the lease there is an option to purchase the item or extend the lease with a reduced rental. Every lease is different and you need to look carefully at it. Leasing is available to higher risk cases that an unsecured loan may be because of the **collateral of the equipment**.

Trade Credit

Trade credit when you buy from other suppliers is generally an **interest free** form of finance unless the supplier is prepared to offer a discount for payment up front. It therefore makes sense to take advantage of it.

However, always bear in mind **good supplier relationships** are important to the success of your business and paying them on time **or even in advance** will contribute to this.

Equity Finance

This is not a loan but the person providing the finance becomes a **part owner** in the business, who may or may not be involved in the running of the business. It is important to fully understand the terms of the arrangement with an equity partner. It could be by giving shares in your Limited Company or by a partnership arrangement.

Venture Capital

The **British Venture Capital Association** www.bvca.co.uk represents companies offering venture capital. Apart from finance, the venture capital firm provides strategic support to the business, often with a seat on the board.

It is generally a **higher risk** type of investment where the Venture Capitalist is probably looking for a **300-500% return on their investment over a 4 to 5 year period**. The amounts tend to be for over £100,000. Most investments take the form of equity capital.

Business Angels

Business Angels are **private individuals** who invest on their own or sometimes as part of a syndicate for larger amounts. They rarely have a connection with the company before they invest but often have experience of its industry or sector. They look to invest both money and their business expertise.

Business angels usually invest between £10,000 and £250,000 in an investment. Business angels invest across most industry sectors and stages of business development, but especially in early and expansion stage businesses. Most prefer to invest in companies within 100 miles of where they live or work.

Grants

The Department of Trade & Industry www.dti.gov.uk is often the best source to find out about grants that may be available to you. Grants are often available for...

- Assisted geographic areas.
- Exporting.
- Research and development activities.
- Training.
- Business start-up support.

Section 14

Professional Help

"Advice is seldom welcome and those who want it the most always like it the least"

Lord Chesterfield 1694 -1773: Letters to his Son (1774)

Typically you will need help from the following...

Solicitors – for partnership and shareholders agreements, employment issues, legal disputes, debt collection, property transactions.

Estate Agents – for buying and renting property.

Architects – for plans for extensions or new buildings.

Accountants – for preparing annual accounts, looking after your tax affairs, payroll, VAT returns, business plans to help raise finance, management accounts.

Referrals are always a good way to start with finding the right professional advisors. The other important point to consider when choosing an advisor is do they **listen to what you are saying**.

Other sources of help...

Business Links – there is a national network of business links that are private sector partnerships of Learning and Skills Councils, chambers of commerce, enterprise agencies and local authorities. They can provide a wide range of subsidised help covering such items as raising finance, franchising,, exporting, training and managing change. www.businesslink.gov.uk/

Local Enterprise Agencies - they are supported by partnerships between local industry and local and central government. You can contact them through your local business link. They are run mostly by experienced business people and can offer advice on finance, marketing, planning, training and finding premises.

The Princes Trust – business start-up programme for 18-30 year olds, many previously unemployed. It can provide advice and loans and is allocated a business mentor.

Shell Livewire – provides free local advice to young people 16-30.

Section 15

And There's More...

"Predictability: Does the flap of a butterfly's wings in Brazil set off a tornado in Texas"

Edward N. Lorenz: title of the paper given to the American Association for the Advancement of Science, Washington, 29 Dec 1979

Health & Safety

Being self-employed you are now also responsible for complying with health & safety legislation. If you have **5 or more employees** you must have and display a written health and safety policy.

Under the legislation there are inspectors who can arrive unannounced at your premises to ensure your compliance with the legislation.

The types of areas to consider are as follows...

Display screen equipment such as computer screens – employers must pay for staff to have regular eye tests.

Electricity at work Fire precautions First aid

Health surveillance Manual handling Noise at work

Personal protective equipment

Recording and reporting of accidents, injuries and illnesses at work. Safety signs.

Work equipment.

Work places such as rest rooms, canteens, toilets, etc. Waste products

Young persons.

Data Protection

You will need to register for Data Protection if you hold data on personal individuals. You can register online and find out more information at

<http://www.informationcommissioner.gov.uk/>

Consumer Law

A consumer has more protection through the law than another business has. What you cannot do is include unreasonable or unfair terms that limit or exclude liability under certain implied terms.

The implied terms for sale of goods to consumers are as follows...

- The person transferring the goods must have the right to do so.
- The goods must correspond to any description given.
- The goods must be of satisfactory quality.
- The goods must be fit for the purpose intended.

For services...

- The services must be supplied with reasonable care.
- The services must be supplied with reasonable display of the skills the person purports to have in offering the service.
- The services must be performed within a reasonable time.

Buying an Existing Business

If you are buying an existing business, you should get advice from a solicitor and/or an accountant. You need to consider if you are buying the assets of the business or the shares if it is a Limited Company. You need to address...

1. How the goodwill is going to be protected.
2. The employees of the business.
3. How the proceeds are split between different assets that you are buying.

Pensions

When starting your business, you may well have left an employer pension scheme and you now need to decide how you are going to provide for your retirement. To get independent advice, you should talk with an **Independent Financial Advisor (IFA)** who is able to look across a wide range of products on the market for you. This compares to a tied advisor who can only offer you products from the company they are representing.

The Business Planners

