ACTIVE PRACTICE UPDATES

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Chartered Accountants & Registered Auditors



What you need to know before launching a startup.

Britain is a nation of fearless entrepreneurs, but the likes of Richard Branson and James Dyson didn't go from rags to riches instantly.

Branson needed a £300 loan to get his magazine up and running after dropping out of school at the age of 16, while Dyson produced 5,167 prototypes before inventing his vacuumless dust-buster.

In fact, Government statistics revealed that more than half of businesses founded in 2011 had folded within five years, so the lesson here is to think before you decide.

If you have a bright idea and have spotted a gap in the market, you'll need to test, prepare and assess the risks and opportunities to give your new business the best chance of survival.

Testing your idea

You won't be starting on this journey unless you believe your idea is a winner, and testing your idea can save you time and money if things don't turn out as planned.

Conducting market research before starting your business will enable you to gauge interest in your product or service and how much consumers may be willing to pay for it.

Living in an increasingly digital age means you can do much of this online. You could visit the websites of potential rivals, trade groups or industry publications for useful statistics.

It's also an idea to identify your ideal customers – those who may be interested in buying your product or service. Think about their needs and habits.

If you have the cash at this early stage, you could hire an objective market research expert who will give you an unbiased assessment based on established techniques in your industry.



Selecting a business structure

In 2017, there were around 5.7 million private sector businesses in the UK. Sole traders accounted for 60% of that figure, with the rest of those businesses being companies or general partnerships.

If you opt to become a **sole trader**, you will run your business as an individual and be entitled to keep all of the profits it makes. You'll also carry the can for any losses it makes.

You must pay income tax and national insurance contributions (NICs) on any profits by completing an annual self-assessment tax return.

Despite the title, sole traders can employ people.

You may also need to register for VAT if your profits are likely to exceed \$85,000 a year in 2018/19.

General partnerships and limited liability partnerships define the partner's liability for debts the business accrues. Profits are shared between partners who are responsible for paying tax on them in an agreed ratio.

Partners in a general partnership can be personally responsible for a partnership's debts and are responsible for managing the business.

In both types of partnership, the individual partners are taxed in the same way as if they were sole traders.

With a **limited company**, the finances are separate from your personal finances, so your personal assets will usually be protected if your business gets into trouble without breaking the law.

As a limited company director, you must register it with Companies House, provide statutory accounts, send Companies House a confirmation statement, and complete a company tax return.

As a director or shareholder of the company, you will not be personally taxed on the profits of the company which you do not extract.

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Much like a sole trader and a partnership, you will have to register for VAT if your annual turnover exceeds £85,000 in 2018/19.

Writing a business plan

Once you've conducted market research and selected a business structure to suit your needs, the next stage is to come up with a business plan.

A good business plan will help sell your idea to investors or banks, while also enabling you to think through every detail to plan for every eventuality.

Considerations include what your business will sell or supply, its structure, how your products will be sold and how much they will cost, short-term and long-term targets and timelines for meeting them.

Where possible, analyse your customers and competitors. Who are they? Where are they based? How does your product differ and appeal? How do you attract these customers?

You should also factor in any financial forecasts – such as profit and loss, projected sales, cashflow - and any marketing or contingency plans.

Naming your business
With millions of companies registered, naming your business is not as simple as it sounds as your business's name cannot be the same as another registered company's name.

Come up with a shortlist of names and order them in terms of personal preference before checking that no other business is operating with the same name.

You can do this by checking the Companies House name register.

It's also wise to check that a suitable web domain is available, so you can set up a website to act as a business card or an online sales portal for potential clients to buy your goods or services.

If you're planning to market or sell products globally, it's important to check that the chosen name for your business does not mean something different in another country.

You should also check that the name you have chosen is not trademarked, and does not resemble a trademark.

There are also certain words or phrases you cannot use in company names.

For instance, those suggesting endorsement by the Government are banned, while others, such as 'optician' or 'architect', are restricted for use by people with the appropriate technical qualifications.

Managing your business

How you manage the first 100 days of your startup will go a long way to determine how successful a venture it ultimately is. Below are some areas to consider.

Business insurance can protect you against mistakes, damage to stock or premises, and legal costs. Some policies can even protect against business interruption and supply chain breakdown.

Have a medium-term goal and stick to it. These should support your long-term visions for running a successful business and usually last between three and five years.

Pay attention to customers early on. Using social media platforms is often a constructive way to do this, and should set the tone for how you handle all customer feedback.

Keep track of the exact amounts of money flowing in and out of your business. Keeping digital records is a useful way to do this, and will help you understand your business's cashflow.

Forecasts play a vital role in managing your business, with sales forecasts and profit/loss forecasts covering most of your business's income and day-to-day costs.

Late payments are the scourge of entrepreneurs. This has a significant impact on cashflow, but there are things you can do to encourage customers to pay on time.

Be upfront about your payment terms and conditions from the start, including your right to claim interest on invoices or issue charges in the events of late payments. You could even offer a discount for fast or early payments.

As well as ensuring you have the right money coming in, you'll need to be aware of your spending. Look at where you're spending the most money and how you might be able to make savings.

For example, assessing your stock can help you focus on how long it takes you to sell stock on average, and where the majority of your profit comes from.

Another area to think about is the tax your business is paying, and whether you're taking advantage of any reliefs or allowances.

If you are eligible for these or other reliefs, our experts can apply them ahead of the tax year to make your business more tax-efficient.

We can help you start a business.