

A GUIDE TO SETTING UP A BUSINESS

Some important aspects to
consider when starting a new business



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01

Introduction

Starting a business needs careful examination as it requires a lot of hard work, thoughtful planning and some luck. There are many things to consider, from coming up with a strong idea to registering a business, business planning, fundraising and much more.

The Startup attrition rate is high with over 50% failing in the first 5 years (according to the Small Business Association) with the top two reasons being:

- No significant market for their offering – 42%
- Ran out of funds – 29%

We have put together this guide to help you through the process and recommend you read through it thoroughly to ensure you give yourself the best chance of success.

To further help you, Acumenology has produced a series of Business Guides on a range of relevant topics. You can find these at: www.acumenology.co.uk/business-guides

This article was first published on October 2019 and may not necessarily match current events or current opinions and views of Acumenology Ltd. The information contained in this article is intended as a guide.

02

Understand what is required before you start

Starting a business is a huge commitment and entrepreneurs often fail to appreciate the considerable time, resources, and energy needed to start a business.

We have listed key areas you should give some thought.



Identify your strengths and Weaknesses

Take a good look at your strengths, weaknesses and any skills you may have. This will allow you to start thinking of what you can do and where you may require help.

Understand your motivation for starting a business

Before you start a business, you should be absolutely clear about why you are doing it.

Are you ready to turn your back on the security of a job and career for the uncertainty of starting a business?

The clearer you are about what you are trying to achieve, the better chance you have of achieving it.

Understand why you are starting a business so you can focus on business ideas that will help you get to where you want to go.

Are you passionate enough?

When starting a business, if you are passionate about it, you are more likely to be successful.

The reason is simple: you are more likely to work harder and persevere more on a business you are passionate about, thus be more likely to succeed.

It is said that the only difference between an entrepreneur who starts a successful business and an entrepreneur who fails is passion.

03

Develop a strong business idea

You may already have a business idea, or you may be in the process of exploring options.

The entrepreneur handbook lists '100 business ideas you can start today'.

Take a look at them and see if there are any that may suit you.

This section will guide you through the process of finding a great business idea, one that you can hopefully turn into a successful, profitable and valuable business.

Set out below is some advice on what to look for when deciding upon a suitable idea.



Solve a problem

Identify problems you could solve and how.

Many Startups started with a mission to solve real problems. You just have to look around you to see businesses offering solutions to problems.

For example:

Problem:

I kept on scuffing /kerbing the alloy wheels on my car even though I tried to avoid doing so. Refurbishing them is expensive.

Solution:

Wheel rim protectors

A new business sector has started providing wheel rim protectors

Provide a better solution

Look for areas where you can provide a better solution than existing companies. This could be in the form of an improved product, lower price or better service.



Be more price competitive

Look for areas where you can provide significant savings to the customer vs competitors. These types of businesses grow incredibly fast, particularly during recession.

The ability to purchase overseas and work from home has led to a plethora of businesses offering customers great value. You only have to look at eBay and Amazon for proof of this.

Innovate

Look at ways of innovating traditional businesses/industries. The availability of technology provides tremendous opportunities to disrupt and innovate existing businesses.

Build a business for the future

Think of what the world may look like in the next 5 to 10 years. Thinking about the future will allow you to think about new markets and niches that may open due to innovations and new technologies.

For example, cryptocurrencies such as Bitcoin have grown to be significant markets with a whole eco-system of technology and infrastructure developing around it.

Copy other businesses but be better

You do not have to have the most original idea to create a brilliant business, you just have to ensure you do it better than anyone else!

The majority of the world's biggest companies were not revolutionary. They entered into markets with developed businesses and outperformed them.

Turn your hobby into a business

A simple idea is to take a hobby and turn it into a real business. A hobby is something you already know a lot about, clearly have a passion for and you will know where to start.

For example, you may be very capable at DIY. You could easily start a business offering handyman services.

If you are stuck.....don't worry

If you have been unable to come up with something appropriate, don't worry. Give it time and something will come up.

04

Research and test your business idea

Market research should be an essential part of a start-up's preparation and business planning. It will help shape your marketing, resources and business plan and can influence how and who you plan to target, what pricing point you choose and even alter your business idea to become more profitable.

The research should focus on two areas:

Competitor research

The internet and social networks make researching your competitors relatively easy. Assess their offering, marketing, pricing, communication etc. as this will lead you to develop your 'usp'.

Customer research

Getting a thorough understanding of your customers likes, dislikes, needs and requirements is essential as it will guide you towards developing a suitable offering.

This will entail going out into the field and speaking to potential customers directly by carrying out face-to-face interviews, a questionnaire or an in-depth focus group with a group of around 8-10 people.

Don't be shy, the work you do here will prove invaluable.

Test the market

The ultimate form of market research is to find customers to buy and use your product or service before you spend too much time and money in setting up.

The ideal way to do this is to sell into a limited area or small section of your market.

Pick potential customers whose demand is likely to be small and easy to meet.

For example, if you are going to run a bookkeeping business select five to 10 small businesses from an area reasonably close to home and make your pitch.

The same approach would work with gardening, baby sitting or any other service-related venture.

It's a little more difficult with products, but you could buy a small quantity of similar items in from a competitor or make up a trial batch.

05

Create a business plan

Once you have finalised your idea, carried out your market research and tested your offering the next stage is to create a business plan.

The business plan allows you to plan your startup in a structured manner and enables external parties to understand and assess your idea.

If you are looking for external funding, lenders/investors will be reviewing your business plan and thus it is important that the information contained is relevant, accurate and readable.

Tips on writing a business plan

Know your audience

Who is the business plan aimed at? Lenders/investors/potential partners or just internal use.

Use a template

There are countless templates and examples, freely available. You may even consider a **pitch deck/power point style** which is increasingly favoured by investors and lenders as it is easier to read.

Keep it short

Keep your writing concise as this will make your much easier to understand and also make sure you format it so that it is easy to read.



Make it relevant

It can be tempting to put a lot of information in. Ensure you only put in the information that is relevant and required by the potential reader.

A lender is more interested in the financials whilst a sales channel partner would be more interested in the marketing aspect.

Focus on the operations

Many spend a lot of time describing the idea which is not necessary unless the idea is new or unique.

Spend time on how you will get your idea to the market. This will include sourcing/manufacturing and sales.

Be realistic

Do not set unrealistic objectives or timelines. Lenders/investors see countless business plans, you cannot pull the wool over their eyes.

Remember one thing is for certain – it will take longer and cost more than you had anticipated, so be realistic.

Keep it updated

Your business plan should be on-going, and it will need to be amended, updated as things change.

06

Getting business finance

Your startup is going to require funding and this section looks at the business finance that may be available. Remember most startups fail due to lack of sufficient funding.

There are a lot of business funding options and they fall into three basic categories:



Debt (lending)

Where you borrow money and pay it back, generally with interest.

Equity (investment)

Where you get cash by selling a part of your business to an investor.

Presales

This is another option. Here customers pay before you've created the products or services they're buying. However, there is limited scope for this.

Whilst there are a lot of options available in this section, we shall outline some of the most popular ones:

Savings / friends & family

Most entrepreneurs start with investment from their savings and a loan or investment from friends & family. One can normally set preferable terms but bear in mind that it may jeopardise relations if you are unable to pay the money back.

Crowdfunding

Crowdfunding is a relatively new form of investment, it allows you to raise small amounts of funding from many people.

This is done by selling equity or offering a reward or product in a presale crowdfunding campaign.

Crowdfunding campaigns typically require an enormous level of marketing to be successful in most cases.

The upside is that it gives you the chance to test if people are receptive to your business.

If your crowdfunding goes well, in some cases, you can raise your funds in a relatively short space of time.

However, beware, whilst raising the funds may be relatively quick the preparation and marketing required can be time consuming and require reasonable funds.



Debt

Peer-to-peer or P2P lending is the practice of lending money to individuals or businesses through online services that match lenders with borrowers.

However, it may be difficult to raise funding if you are a startup. [Funding Circle](#) and [Crowd2fund](#) offer P2P lending.

Equity

You pitch your idea and offer shares in the business.

Crowdfunding platforms like [Seedrs](#) and [Crowdcube](#) offer equity solutions.

Presales

You pitch your idea and ask for pre-orders.

You'll need to declare how many orders are required for you to launch the business and, if you pass that amount, you're expected to follow through.

[Kickstarter](#) and [Indiegogo](#) are for pre-sale/rewards-based crowdfunding campaigns.

Business Loans

A business loan means you borrow from a bank, person or lender and agree to pay it back over time, with interest.

Although [loans offer a flexible way for businesses to raise capital](#), the chances of raising a business loan is slim as the business has not been trading and can show no trading history.

Startup loan

The government backed [Start Up Loans Company](#) was set up in September 2012, to help new and early stage UK businesses access affordable finance and mentoring support.

It has provided over £500million funding to over 63,000 businesses.

It provides up to £25,000 funding in the form of an 'unsecured personal loan' at 6% interest from 1 - 5 year together with free mentoring.

Before applying for a loan, the Start Up Loans Company outlined some questions you need to ask yourself before applying for funding.

1. Do you have a business plan?
2. Is your business plan accurate and up to date?
3. Do you have proof of any sales or contracts discussed in your business plan?
4. Have you prepared a cashflow forecast?
5. Does the business plan match the cashflow?
6. Do you have a personal survival budget?
7. Do you have good credit history?
8. Do you know what you require the funding for and how much you require?

Do not apply for funding till you can say yes to the questions above.

Next Steps

1. Eligibility - check for your eligibility by completing the eligibility checker. [Click here](#).
2. Getting started – if eligible start the application process. Your application will be handed to an appropriate Delivery Partner who will contact you.
3. Application process – the Delivery Partner will assist with your application. In order to assess your request for funding they will work with you on the following documents.
 - Business plan
 - Cashflow statement
 - Personal survival budget
 - Photo ID
 - Proof of address
 - Copy of the last consecutive three months of current account personal bank statements,
 - CV
 - Visa (if applicable)

To find out more about these documents [click here](#)

Personal loan

If you have a good credit history, it may be simpler, quicker and cheaper to take a personal loan from your bank. This will not require a business plan, cash flow and some of the other documentation required for the Startup loan.

07

Choose the right business structure

The structure you select for your business will depend on your specific needs.

In this section, we will take you through the various business structures, their advantages, disadvantages and how you can set them up.

Sole trader

A **sole trader** is where one person owns and runs the entire business.

It is the simplest business structure and is suitable for any one-person businesses; this includes independent accountants, web developers and gardeners among others.

Being a sole trader means the individual is entitled to all/any profits of the business but is also liable for any debt/damages incurred. In the UK, there are currently over 3 million registered sole traders, and the number is growing with a massive influx of skilled freelancers.

For more info [click here](#)



Limited company

A limited company is a structure where the business is a separate entity from its owners.

This means the owners are only liable for any business debts to the extent of the amount of money they have put into the business, thus limiting any exposure for business owners beyond their total investment.

There are two types of limited companies you can incorporate in the UK.

Private limited company (Ltd)

In a private limited company, the owners privately hold shares. This is the most common and preferred incorporation structure for most small businesses in the UK.

Over 5.2 million limited companies are operating in the UK now.

Public limited company (PLC)

In a public limited company, shares are available to the public for ownership and purchase.

A public limited company must have a value of at least 50,000 pounds before it can trade as a PLC.

For more info [click here](#)



Limited liability partnership (LLP)

An LLP is a partnership structure used by businesses such as vets, dentists, law firms or accountancy firms.

An LLP is made up of at least one limited partner and one general partner (there can also be more than one of each), and these partners have different responsibilities and exposure regarding the business.

For more info [click here](#)

Partnerships

A partnership may be appropriate if you are offering services with people you know well.

If you sub-contract work from larger companies you may need to incorporate to satisfy their guidelines.

Partners share the risks, costs and responsibilities the profits from the business.

Each partner is personally responsible for paying tax on their share of the profits and gains, and for their National Insurance contributions and must register for Self-Assessment with HM Revenue & Customs and complete an annual tax return.

For more info [click here](#)

Since most Startups are likely to be either a sole trader or a Ltd
Set out below is a summary to help you decide which is best for you.

Sole Trader	Limited Company
You operate the business as an individual and are responsible for the business	The business is a separate legal entity of which you are the Director
You do not need to register your business with Companies House	You must register your business with Companies House
No distinction is made between business finances and your personal finances	Business finances are separate to your personal finances
You can employ staff	You can employ staff. As the Director, you are an employee of the company
You must complete a Self-Assessment Tax return for every financial year with HMRC	You must complete a Self-Assessment Tax return for every financial year with HMRC
You must pay income tax on the profits that the business makes You must pay National Insurance	You must pay Corporation Tax
You must pay National Insurance	The Company must pay National Insurance and income tax
You are personally liable for losses that the business suffers	The business is liable for losses that the business suffers
You do not need to file Annual Reports with Companies House	You must file Annual Reports with Companies House

08 Business Operations

Once you have decided upon and set up the legal structure of your business, there are several important financial and other legal responsibilities that need to be considered.

Opening a business bank account

Before you can start generating any revenue or making purchases, you are going to need to open a business bank account.

Choose a bank carefully as it is likely you will be with the chosen banking provider for the life of the business.

Look at the offering of some of the new banks as it is possible, they may be more suitable for your needs.



Also consider what type of business account best suits your needs.

You may wish to look at some of the following:

- Do they charge fees based on different transactions, is it a flat monthly fee or is it even free?
- If transaction fees are applied, what charges are applied to each type of transaction?
- Do they provide transaction fee free accounts for certain types of transactions such as online or retail?
- Does the bank offer any complimentary benefits such as insurance, software, or other benefits if you open a certain account with them?
- Do they offer free business banking and accounts for a period? For new ventures, banks tend to offer from 6-24 months free banking.

Understanding your accounting, tax and filing responsibilities

As a shareholder, owner or director you will be responsible for filing some form of accounts, filing paperwork and paying various business taxes to the HMRC.

Accounting

There will be numerous accounting requirements you have to comply with depending on your business structure. These are:

- **Record of your financial transactions**

You are required to keep an accurate and up to date record of their finances, this means recording expenditure, income and any other financial transactions of the business.

Having up to date records also helps make financial plans and file accounts relatively quickly.

- **Prepare and file annual accounts**

Limited companies and limited liability partnerships are required to submit accounts annually.

These accounts are a record of your business expenses, revenue and financial transactions across the accounting year.

Your corporation tax bill will also be worked out based on these accounts. Your accountant would usually prepare these accounts.

- **Filing a confirmation statement**

Limited companies and limited liability partnerships need to submit an annual confirmation statement.

This statement is simply to check that the information that Companies House has about your business is correct and if any is incorrect or out of date, you will need to update these details.

It currently costs £13 to file your confirmation statement online and £40 offline.

- **Register for self-assessment**

Self-assessment involves the annual filing of a set of simple accounts covering your income during the year.

The HMRC uses this to assess the tax you need to pay personally.

Sole traders, company directors and limited liability partners will need to register for self-assessment.

- **Register for VAT**

If your business is likely to have more than £85,000 in annual sales, you will need to register for VAT.

This is a flat rate tax you must charge on top of any goods or services you sell. VAT currently stands at 20%.

Once you're VAT registered and have your VAT number you can purchase products from other businesses VAT free

- **Register for corporation tax**

If you have a limited company that is trading (making financial transactions), you will need to register for corporation tax within three months of starting your business or beginning to trade.

You will be assessed for corporation tax through your annual accounts and will need to pay a flat rate tax based on the profits generated by your business.



Business tax

Getting the tax right and making sure you pay the right taxes is one of the most important financial aspects of any business.

To find out more about small business taxation including corporation tax, Vat, dividends [click here](#).

Business rates

If you are going to rent commercial premises, it is likely you will need to register for and pay business rates.

Use an accountant

It is advisable to use the services of an accountant. They will ensure some of the following:

- You pay the right amount of tax.
- Ensure you meet, file and pay any major tax deadlines such as annual statements, accounts, corporation tax and so on
- Have expert financial advice and information at your service.
- Ensure your annual accounts are correctly compiled and submitted to the HMRC.
- In summary, a good accountant will make the financial aspects of your business much easier to handle and can save you money.

Choose small business accounting software

Unless you are likely to have a limited number of annual transactions you are advised to get small business accounting software, for two primary reasons:

- If you are a limited company or partnership, your annual accounts, which you must legally submit to the government yearly, require all your records from the annual accounting period.
- To enable you to manage and track all of your financial transactions.

The software will in the long run save you considerable time and money.

To help you choose the best accounting software for small businesses [click here](#)

Business insurance

When you start a business, there are several types of business insurance available for your business, some compulsory and some voluntary.

Ensure you have the right ones in place can avoid costly pay outs should things go wrong.

To find out more [click here](#)

Here are the main types of insurance:



1. Public liability insurance

This protects businesses against losses suffered by people or customers injuring themselves or sustaining property damage due to the activity of business and is one of the most common types of small business insurance.

It is of particular importance if you operate physical premises and regularly interact with customers in a third party or business owned premise.

2. Professional indemnity insurance

This is for businesses and professionals that provide advice or services to customers.

It protects your business against any claims for damages or legal costs which arise due to act omission or breach of professional duty in the daily course of operations.

It actively protects your business if advice or a service provided negatively affects a customer.

3. Employers liability insurance

This insurance protects a business that employs staff from financial losses incurred when a staff member experiences a job-related illness or injury.

Workplace injuries can be extremely costly for an employer if they are liable.

ELI offers protections against this and it's particularly relevant for business who have many staff involved in physical work on their behalf.

4. Product liability insurance

This insurance protects your business from damage to property or personal injury caused by products your business/company has supplied or sold.

5. Trade credit insurance

This insurance protects private companies from their customers being unable to pay back a debt due to bankruptcy, default or insolvency.

It's most relevant for companies that operate under a B2B model and have a range of key customers who use offered credit facilities.

As with buying any product or service make sure to shop around and compare prices and clauses.

With insurance, read the small print carefully and clarify the conditions around your insurance policy (to make sure you a policy covers losses or damages thoroughly).

Intellectual property

Protecting your intellectual property (IP) can for some businesses be critical to protecting your brand and products from damages that come from people using your intellectual property without your permission.

To understand IP better [click here](#)

There are three main areas around IP you need to consider.

1. Trademark

A trademark is a legally registered symbol, word or words representing a business that legally owns it, protecting the business from anyone else using this name or symbol.

Startups need to assess whether you wish to trademark your company name, brand logo etc and prevent others from misusing it.

2. Patent

A patent is an exclusive right granted for a product, invention or process that provides a new way of doing something or provides a new technical solution to a problem.

Applying for a patent is only relevant for new businesses that have invented innovative technology or product that could be copied by others.

A patent grants your legal ownership of this invention and the exclusive right to it, thus providing your business with protection.

3. Copyright

Copyright is primarily used by book publishers, theatre companies and other types of entertainment/information-based companies whose work cannot be used without permission

09

Creating a brand and business identity

It is important to consider how you present yourself to the world and your potential customers. This includes branding, website and email addresses.

Create a brand

Having a strong brand that reflects your business is important as it can be your target markets first interaction with you.



Some elements to consider:

1. Create an appropriate logo
2. Choose an appropriate colour scheme
3. Choose a tag line that encapsulates your offering
4. Create a symbol, though this is not always necessary

We recommend that this is carried out professionally though there are some excellent online resources such as:

[Freeloseservices](#); [canva](#); [wix](#); [free logo design](#)

Develop a website

Whatever your offering having a website is essential. Creating a suitable website is more challenging than it would at first appear.

There are several options available.

1. Build your own

If you are reasonably tech savvy you can build your own via website builders such as: [Wix](#), [Squarespace](#), [Weebly](#), [Shopify](#).

2. Hire a freelancer

You can hire freelancers via sites such as [Freelancer](#); [People per hour](#); or [Upwork](#):

3. Hire a web design agency

There are a myriad of web design agencies to choose from.

Some act as account managers whilst getting the work done by a third party

You also need to consider the on-going management of the website.

This will include items such as hosting, backups, security, updates etc.

Unless you are tech savvy, we recommend you use the services of a professional.

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Conclusion

As you have seen starting a new business can be quite challenging and time consuming with a myriad of things to think about and do.

Our list is by no means exhaustive. There are numerous other aspects to consider but we hope that the information provided has been of help.

If you would like to discuss matters or would like some help please get in touch with us at info@acumenology.co.uk

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