

topical tips

Issue 20 Summer 2002 Your first three years in business

Your first three years in business

Business failures are all too common – over 30,000 liquidations and business bankruptcies were recorded in the first 9 months of September 2001 (Source: Bank of England). Many business analysts agree that the first three years of a business' life are the hardest.

In this practical guide, we outline the key issues you will need to consider in the early days of your business' life. This is though merely an overview and because each business is unique, we do recommend that you seek professional advice. **We have helped many people develop successful enterprises and for an initial free consultation about your business needs, call Paul Samrah on tel 01737 779000, email psamrah@kingstonsmith.co.uk**

Building a healthy and prosperous business – the day to day issues

In this section we explore the day to day issues you need to deal with, which can make the difference between business survival and failure.

Day to day checklist

- Keep control of the finances
- Comply with regulations
- Keep your customers happy and the orders coming in
- Build a successful team

Keep control of the finances

Monitor your performance

There are many different reasons why businesses experience problems that lead to their downfall. These can include lack of investment, cash flow problems, insufficient turnover, poor planning and lack of business experience. By monitoring your performance regularly against your business plan, you can quickly identify potential problems and take appropriate corrective action. Your business plan should include forecasts and assumptions – the actual figures should be critically compared against these budgets. The business plan is a 'map' for you to follow at all stages

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during the life of your business. It is good to do this monthly and sensible to conduct a more comprehensive review and update your business plan every quarter.

Make the most of Management Accounts

Up to date Management Accounts provide invaluable information – ensure though that they help and not hinder your decision-making. To do this, make sure the accounts are clearly laid out and address all the key areas you need to monitor. Be certain to look at:

- actual and projected turnover based on your order book
- outstanding liabilities and debt recoverability
- stock turnover, debtor/creditor days, liquidity ratios

Initially your records can be kept using a simple spreadsheet. However, as your business develops you will need to have more sophisticated systems such as an ‘off the shelf’ computerised accounting package. You may also want to consider employing a part-time bookkeeper or outsourcing this function. This can free up your time for other areas of the business. Larger businesses may also need to consider employing a full-time financial controller.

Build a good relationship with your bank

During your first three years, you will come to the end of your free banking period. At an early stage, it is good to discuss the level of future charges with your bank and review whether you can reduce these by more use of:

- direct debits
- standing orders
- BACS payments

You would be wise to budget for bank charges in your forecasts and tighten your procedures to minimise these costs as necessary.

If you are in credit with your bank, try and ensure that your funds are earning interest. Investigate the possibility of an overnight sweep of your current account into an interest earning account.

Other ideas

There are other ways of reducing your overheads and improving the efficiency of your business. You might like to consider:

- Factoring and invoice discounting
- Approaching your suppliers for improved terms as your business grows. As the level of trade with your suppliers increases, you could seek improved discounts and/or more favourable credit terms
- Outsourcing – Doing everything yourself may not be the best use of your time, nor is it always cost efficient. There may be insufficient work to employ someone part or full-time, however, the work still needs to be done. Subcontracting and outsourcing certain tasks can prove very cost-effective.

Complying with regulations

When you first started in business you faced various tax and legal responsibilities according to the type of enterprise you formed (eg. limited company, partnership, sole trader etc). As your business develops and grows, these responsibilities simply increase. Below are some of the areas you need to consider:

Taking on staff

If you need to take on staff, you will have to comply with employment legislation. This includes:

- Providing written terms and conditions of employment for each employee
- Having proper disciplinary/grievance procedures in place
- Paying at least the National Minimum Wage
- Adhering to the Statutory Sick Pay obligations
- Adhering to the Maternity and Paternity leave provisions
- Health and safety issues
- Adhering to redundancy provisions

If you employ 5 or more employees, you must provide a Stakeholder Pension scheme.

Data Protection Act

You may have to register under the DPA if you hold any computerised records relating to individuals’ names, apart from your employees.

PAYE

If staff are taken on, then you will need to contact the Inland Revenue to set up a PAYE scheme in order to deduct Income Tax and National Insurance contributions at source. As an employer, these deductions plus Employers’ National Insurance must be paid over to the Inland Revenue.

If your monthly PAYE/NI bill is less than £1,500, then quarterly rather than monthly payments are permitted. Be sure to operate the PAYE scheme correctly as the Revenue carry out spot check visits and the penalties for errors or mistakes can be heavy.

At the end of every tax year, as an employer, you will need to prepare a return of expenses and benefits for each of member of staff (P11d) earning over £8,500 per year (inclusive of benefits). A severe penalty system also operates for incorrect P11ds – the due date is 6th July.

VAT

If your taxable turnover exceeds the VAT registration threshold (£55,000 from 1st April 2002), you will need to register for and charge VAT on your income. Any excess VAT charged (output tax) after deducting VAT suffered on allowable expenses (input tax) is then returned to Customs and Excise. There are special schemes for smaller businesses including cash and annual accounting; otherwise VAT is usually paid quarterly. Customs and Excise will carry out periodic checks of your accounting records. You should really expect a VAT inspection within three years of your business registration.

Audit threshold

A statutory audit is required for all limited companies whose annual turnover exceeds £1million. This threshold may yet increase to £4.8million, under present proposals. Accounts of smaller companies need not be audited, but shareholders can request an audit to be carried out if they hold more than 10% of the company's equity.

Keep your customers happy and the orders coming in

Even if you seem to be busy, it is important to maintain your marketing and communicate your success. Not only will this help produce orders in the future, it will also help convince potential investors that you have a good track record and are building a successful business. It is sensible to be careful that you do not become over-reliant on a small number of customers, so avoid the 'eggs in one basket' approach to turnover.

Equally, you should also ensure that your customers are happy with your service and product quality. Often existing customers are happy to feedback their views on further enhancements or innovations, so make sure you

continue dialogue with them.

If you are going to stand out against your competition, it is also important to keep up with any changes in your marketplace and understand what issues are affecting your customers. There are various ways you can do this, for example by reading the industry press and attending industry events. As well as providing information, these may also give you the opportunity to form partnerships with other businesses, which could help you share resources and access a bigger customer base. For a more comprehensive guide to sales and marketing issues, visit the Business Link site: www.businesslink.org

Build a successful team

Let's face it, you cannot do everything. As your business expands it is a good idea to concentrate on particular areas and delegate others. You will also need to recruit the right people who can help achieve the objectives that you have set for the business. Training will be important to get your new people up to speed and grants may be available which could help you with this (see www.businesslink.org for further information).

Once you have recruited these people, it is important that you hang on to them. Not only is the recruitment process costly, but when you consider the cost of training people and the value continuity of staff brings to your service delivery and your customers, you may have a serious problem if you are continually replacing staff.

There are a number of ways to motivate, reward and retain your key employees. These include providing simple bonuses, benefits in kind through to more complicated share incentive schemes, enterprise management incentives or employee benefit trusts. The option you select should depend on what you want to achieve:

- are you aiming to provide an incentive to work towards a common goal?
- or
- are you looking to lock in key people, whose skills your business' success depends on?

Either way, you should really seek professional advice as there are a number of options available and it is important you select the right one for both you and your employees.

Consider recruiting a non-executive director (NED) with knowledge or experience of your type of business. A NED can be an extremely valuable support for you and the cost is relatively modest.

Building a healthy and prosperous business – longer term considerations

It is very easy to concentrate your energies on the day to day issues of running your business. To ensure you build it into a prosperous enterprise, it is a good idea to plan for the future.

Long-term checklist

- Funding growth and expansion
- Protect your intellectual property
- Moving premises

Funding growth and expansion

After your start-up funds have run out, it will be important that you have resources to fund further growth.

Limited grants and loan assistance is available. These include:

- **Enterprise grants** are available for businesses employing less than 250 people and for high quality projects in designated areas

- **Regional innovation grants** are available for businesses with less than 50 people to encourage development of new products or processes
- **Regional selective assistance.** This is a discretionary scheme in parts of the UK which are designated as Assisted Areas. The scheme to encourage businesses to locate or expand in these areas. Projects must involve capital spending of over £500,000
- **Small firms loan guarantee scheme.** This provides government guarantees for loans by approved lenders. Loans for £5,000-£100,000 go to businesses unable to obtain conventional finance because of a lack of track record or security.

Apart from grants and loan finance, businesses with good growth potential should consider sourcing external equity capital. This will involve an investor making a capital injection in return for a stake in your business. Equity capital can be provided by a firm of venture capitalists or by an individual business angel.

Protect your intellectual property

It is sensible that you take steps to protect your rights to any original work, design, inventions of your own creation, whether it be by taking out a patent, copyright or registering your trademark.

Moving premises

You may find your business has outgrown its first premises; it will then be time to consider relocating. If you think how high moving home scores on stress level charts, consider the trials and tribulations of moving a business. Good planning, however, can make the process more bearable.

- Plan your move – set up budgets and contingency plans and aim for a relatively hassle-free systems integration
- Decide how to finance your relocation – will it be better to lease or buy?
- Protect your investment – ensure you have insurance to protect your assets before, during and after the move
- Refurbishment – if you are planning any physical changes to the property, you will need to comply with key legislation such as health and safety and building regulations.

Don't forget yourself and your family!

The first three years of a business' life are challenging and can be all consuming for the owner managers involved. In building a successful business, it is important that you achieve a healthy work versus home life balance. The success of your business will be linked to your wellbeing and development and it is important that you keep things in perspective. So take a holiday, spend some time with your family and maintain an outside interest, the time is well spent in the long term.

As your business progresses, remember to look at your own personal finances and consider estate planning, wills, life and permanent health insurance.

Building a successful business is a challenge, but it can be immensely rewarding and satisfying. It is not only exciting being your own boss, but the prospect of building a prosperous enterprise is a great achievement. It is important that you continue to seek professional advice to ensure you reach your goals.

Kingston Smith specialises in advising owner-managed businesses. Our senior partner, Michael Snyder, is involved in advising Government on small business issues and chairs the National Business Angels Network. We have accountants, tax experts, consultants, corporate financiers and lawyers who will be pleased to help you.

For an initial free of charge consultation, contact Paul Samrah on 01737 779000, email psamrah@kingstonsmith.co.uk



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