



The evolution programme

Setting up a business – getting the foundations right

What you should be thinking about now

This information sheet is the first in a series aimed at helping people who are considering setting up a new commercial enterprise that requires outside funding. The series will provide advice and guidance on the main issues involved in building and developing a business.

You are likely to be an experienced business person in a customer-facing role who has identified an opportunity in the marketplace to provide a new product or service. You are determined to create a successful and profitable business that creates owner-manager and shareholder value, stimulating career opportunities for you and your staff, and retirement funding for its principals.

The two critical issues to consider at this pre-formation stage of the business are the business plan and funding.

The **business plan** is the essential starting point for anyone considering setting up. All the thinking, research and information-gathering on your new business idea needs to be pulled together into one document that encapsulates, tests and demonstrates that your concept is viable and can be developed into a sustainable business.

The main elements in a good business plan are:

- *the concept – what is the business going to do and how*
- *revenue streams – who will be paying you,*

how much, what margins/profit will you make on goods and services sold, etc

- *marketing – who is your target market, how are you going to reach them, how are you going to differentiate yourself from your competitors*
- *people and assets – how many people will you need, what will they cost, where are you going to run the business from*
- *management – who do you need to run the business, what skills do they need, what is your role going to be*
- *financial projections – how much cash are you going to need, how long before you will be in profit.*

For further help, take a look at the checklist on the business planning process on our web site at: <http://www.pkf.co.uk/businessplan>

You should always try to draft the business plan yourself – although you may need external help turning the ideas into numbers. Ultimately, it is your idea and YOU need to be in control of the management and finances to demonstrate to potential funders that you have a viable business proposition.

Your accountant can help you work out the financial projections and test your assumptions, advise you if they are reasonable (e.g. sensitivity analyses), and provide a financial model that will appeal to potential funders.

You will need to consider **funding** issues in producing your business plan. At this pre-formation stage, your focus will be on

ensuring access to sufficient capital to set up and run the business until an income stream is flowing. Funding is examined in our second information sheet entitled **Finding the Funding**.



PKF Top Tip – Check out available domain names for your business web site and register them as soon as possible. The bare minimum for any new business on day one is to have a home page and “site under construction” message up and running.

What’s right for you – options to think about

Assuming that your business plan demonstrates you have a sound business concept and have raised the relevant funding the next three issues to resolve are:

- *business structure*
- *lease or purchase of premises, equipment and plant*
- *IT and management systems.*

Although there are a number of **legal structure** options for new businesses ranging from Sole Trader and Partnership to Limited Liability Partnership, Private Company or Public Limited Company (PLC), the most commonly adopted legal entity is that of a private limited company.

One reason for forming a limited company is to reduce the risks to your home and other personal assets. There might even be tax advantages. As a Sole Trader, you will be individually responsible for your trading debts and your creditors could pursue you to the limit of your personal assets. As a Partnership, your trading debts are – in principle – shared by all partners, but all or any of the partners could also be pursued by creditors to the limit of their personal assets.

As a private limited company, a shareholder's liability is limited to the price paid for the issued shares. However, funders often ask for personal guarantees.

Lease or purchase?

Since one of your objectives when setting up a business is to keep the cash flowing, it is worth considering leasing rather than purchasing. You shouldn't tie up your start-up capital in purchasing premises or equipment when you could use it as working capital. Avoid committing to long-term lease agreements for office or factory premises, plant and machinery, voice and data systems, and major items of office equipment such as photocopiers.

PKF Top Tip – set up online banking. It's generally cheaper than conventional banking; you can always see up-to-date information on your account; and you can access it any time you want to catch up on your business banking – e.g. from home in the evenings or at weekends.

IT and management information systems

Seek advice on the choice of integrated and scaleable business solution software and set up the system from day one. Information is key within any organisation, but is particularly vital when setting up a new business. From one integrated database, you should be able to obtain management information, run the

accounts, record time, and manage customer relationship and marketing programmes.

What you must put in place – complying with the law

The first three things you must do are:

- *notify HM Revenue & Customs that you are starting a business. The website is very helpful - www.hmrc.gov.uk*
- *set up PAYE and National Insurance Contributions (NICs) for you and your staff*
- *request an Employer's Pack (recommended)*
- *register for VAT.*

If you have employees, you must also comply with the following three legal requirements:

- *if you have more than five employees, you must have a stakeholder pension plan set up. It doesn't have to have anything in it, but it must be available for any employee who may want a stakeholder pension*
- *if you hold information about a person in electronic format, you have to comply with the provisions of the Data Protection Act which states that "all data controllers holding personal information for non-domestic purposes must comply with the eight principles of good information handling." Check out the full details at www.dataprotection.gov.uk.*
- *if you have any employees, you are required by law to have employer liability insurance.*

More questions

Q. How should I take my share of the income?

A. The options are to take a salary, pay dividends or borrow surplus cash. These may trigger different tax consequences, depending on your personal and business circumstances.

Q. What can I ask the accountant to do, so that I can get on with building the business?

A. Calculating the payroll and NICs, completing P11D and VAT returns, and providing timely and accurate management information are all complex, onerous and time-consuming activities. They require the professional services of a part-time bookkeeper at the very least to ensure compliance with the filing deadlines.

Outsourcing the finance function can provide peace of mind at reasonable cost, as well as ensuring that the systems are set up properly and giving you access to specialist staff at any time.

Q. How can I get a balanced perspective of the business?

A. When setting up a new business, it is tempting to become totally focused on it to the exclusion of family, friends and your own health and well-being. But it's vital to maintain a balanced perspective. Make the most of all your contacts to provide mentoring guidance and support. Don't be afraid to ask your bank manager, accountant, colleagues, friends and business contacts for their advice or suggestions for potential mentors.

And finally, remember, no-one has ever said on their deathbed, "I wish I'd spent more time at work." Make sure you take time out.



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