

Small Business: **Laying a start-up's foundations** by John O'Donnell

SETTING UP a business is like going into battle. The risk of being brought down by a competitor means that budding entrepreneurs need more than just a brilliant idea.

Turning a thought into a successful business requires a plan. And the most important aspect of plotting a route to success is knowing that you won't be ruined if it all goes wrong.

Before Sir Richard Branson set up his airline, Virgin Atlantic, he did his sums to make sure that he could afford to fail.

"I knew that we would be taking an enormous risk," he says. "So the first thing I had to be sure of was that the downside would be protected. I did a deal with Boeing so we could hand back our jumbo jet after a year. That way I knew there was a cap on the amount of money I could lose.

With the money we were making from the record business I could afford to lose that amount in 12 months."

There is another factor that entrepreneurs must consider as they prepare to launch a firm.

"Having enough cash to see your business plan through is very important," says Branson. "Businesses go bust because they run out of cash. Do your best to get the money upfront because if you try to raise it later, it will be very difficult."

Getting started

A good business plan will show more than just the drawbacks. And as it is a key document, it requires a great deal of research.

Simon Woodroffe spent hours on his scooter before opening his restaurant chain Yo!Sushi. Every morning he would get up at 4.30 and dart around London's deserted streets, looking for a site for his first bar. In all, it took him almost two years to plan the launch.

Woodroffe says he learnt a lot of lessons from launching Yo!Sushi and its spin-offs.

"Now the first thing I always do when I plan is to postpone a decision on whether or not to start the business until the research is finished.

"Asking yourself if you are going to do it or not is a waste of time. I'm always changing my mind and it is distracting."

He believes that planning a business is all about getting the details right. "You have to become a researcher. It is about becoming absorbed in what you are doing."

Make a rough plan

A final business plan should include the company's aims, financial and organisational strategy as well as a market analysis. But most owner-managers should not go into so much detail at the outset.

David Miles of BDO Stoy Hayward, the accountant, says: "When you start it is best to keep it simple. Work to a 'quick and dirty' plan and make fast decisions.

"A quick plan is required to make you think through the big issues. You have to outline the market potential and have a broad-brush financial plan.

"You should include what sort of sales you can make in the first 12 months, what the overheads are going to be and how much cash you will need. But use no more than two sheets of paper with a couple of spreadsheets to support it."

The next watershed comes after three months. After that time, says Miles, the entrepreneur should sit down and write a more detailed plan. "Rip up your first one and write a proper one, this time with all the details."

Know when to quit

Deciding how much you can afford to lose will help you determine when to pull the plug if things are not going according to plan.

"You should decide on landmarks that will make you stop, "for example, if sales are below £10,000 after two months," says Miles. "Set down the rules about when to quit before you start. When you have started the business, then emotions take over and your inclination will be to carry on even if it is ruining you."

In one case Miles handled, two businessmen invested £50,000 to help an inventor friend design a security device. But they underestimated costs and overestimated how long it would take to get to market.

Now, 18 months on, they have run up a further £300,000 bill and are unable to sell their investment.

Asking opinions

Although a second opinion can help guide plans, many would-be entrepreneurs are easily discouraged, according to Yo! Sushi's Woodroffe.

"People get very affected by what other people say, they are far too influenced," he says. "Although you should always ask advice, don't forget you don't have to take it.

"The one thing you should never ask is whether you should start the business. And when you do get advice you will come up against stone walls.

"I had a friend who wanted to start a retail tea business and another who said: 'By the time you get off the ground, Costa Coffee will just take you over, so what's the point?'

There is usually a way round these kinds of problems and it is often in the detail. The people you are asking for advice won't know the details of the plan so their opinion is only worth so much."

Market research

One of the biggest mistakes entrepreneurs make is not researching the market properly, according to Louise Schofield, a start-up adviser with Business Link.

She says: "The vast majority of businesses that fail do so because they have not researched their market. Their owners think a lot about what they are going to sell but not enough about who will buy it or how much they will pay for it."

The quick way to research a market without stopping people in the street is to see how well competitors are doing.

"One thing I hear a lot of is: 'Nobody is doing what we want to do'. But when comparing yourself, don't just look at people in the same industry; look at people in related businesses. If someone, for example, comes to me planning to open a pie-and-mash shop they might say: 'I haven't got any competition because there is no other pie-and-mash shop'. But they might find there is an Indian or a Chinese."

Risk of overplanning

Spending too much time at the drawing board can be as bad as spending too little, says Clive Jacobs, who set up Holiday Autos, which now has sales of £200m.

"Planning is not compulsory," he says. "The best start-up businesses come from the gut. You see that someone else is not doing something that could be done."

"When I started my business I did very little planning and I didn't have the resources to do proper research either. "If you have an idea, the most important thing is to get moving. Tomorrow someone else could come along with the same idea so get the ball moving and then start reacting to reality."

Yo!Sushi's Woodroffe has a final word of warning:

"Whatever you write in your business plan probably won't happen. You have to be ready to react to opportunities."

"As John Lennon once wrote: Life is what happens while you are busy making other plans."

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NO MATTER how small your business you will nearly always pay less tax if you trade as a company, says BDO Stoy

Hayward, the accountant. David Miles, a partner with the firm, says: "A sole trader making £20,000 a year could save £2,000 by incorporating, and a businessman making £42,000 could save £3,000. The reason is that company taxes are lower. But you have to be clever about how you take the money out.

You have to pay yourself a mixture of salary and dividends — the latter save on National Insurance." Accountants' bills will be higher, however. Where a sole trader might face a bill of, say, £500, a company may have to pay £700.

"The other advantage of a company is that you are limiting your liability," he says. "So anybody who has leased a business premises — normally one of the biggest liabilities of a small company — should make sure it is in the company's name and not his own."

THE first step is to approach a formation agent — a broker for new companies. "You can buy the limited company from the agent for about £100," says David Miles, a partner at BDO Stoy Hayward, the accountant.

"He will check if the name you want to register has been used anywhere else. If it has, you will have to take another name. "You can contact the Companies House website, which gives you a list of formation agents" www.companieshouse.co.uk

Before you register there are three steps to take.

"First," says Miles, "you need to appoint at least one director and a separate company secretary. Then you need to chose a place for your registered office — that can be your home. You also need to issue shares and decide how many to give to the directors."

Company owners have more paperwork than sole traders. "On the operational side," says Miles, "you have to set up the bank accounts in your name. Then you must register with the Inland Revenue for corporation tax. If you have sales of more than £54,000 you will have to register for Vat as well — contact Customs and Excise to do this. You will then need to register your payroll by contacting your PAYE district office.

"Even if you don't have any staff, you will still need a payroll because you will have to pay yourself."

The final piece of the paperwork is the annual accounts, which have to be filed with Companies House every year. You can decide on the date for your own year-end.