

**Suite 102****GOING INTO BUSINESS?**

*Going into business*  
*Reasons for going into business*  
*A path with fewer risks*  
*Or, start with a good idea*  
*Developing the idea*  
*Which path to business*

**102.01 INTRODUCTION**

In today's world more and more people are deciding to set up their own business.

If you are thinking of setting up your own business venture there are many things which you should consider. It is our task to provide you with a road map which we hope will highlight vital areas to your decision making process. Now we may not hit upon every single area which would apply to your particular situation, but the odds are that we will call to your attention vital areas requiring your consideration.

Datamatrix has created a virtual building in order to ease navigation into and through the world of business. This has been designed to make navigation comfortable while we guide you through the various levels from the conception of an idea through the legalities of setting up a business to the realities of running the business.

Developing your business idea into a viable product or service is a critical part of building a business. A thorough critic including market research at an early stage will help you assess your idea.

Our job is to help you with this assessment process to see whether your idea can form the foundation of a successful business and to provide a process to monitor and measure your progress.

**REASONS FOR GOING INTO BUSINESS****102.02 ASSUMING CONTROL**

The biggest attraction is the independence of being your own boss. You could now have a choice of time schedules providing the flexibility to work within your children's school hours

You may find that you will work longer hours. Your stress levels will increase when things are not going well. Unless you plan carefully you should be prepared for a loss of such as pension schemes, holiday and sick leave.

### **102.03      A UNIQUE OPPORTUNITY**

Sometimes you can be faced with a unique opportunity. Perhaps you are offered a chance to buy out your employer, or similarly a family business. Although unique it is similar to any other start-up business. You will need to think about your commitment as you may be required to put your own money into it. Therefore, it is essential to make a detailed assessment to ascertain if the business is really viable.

Initial development and testing may already be a plus factor, but do you have expertise with the product or service and a good understanding of what will be required of you? Is there an established customer base, with a reliable income along with a reputation to capitalise and build on?

Look closely to make sure that you may not lose support services that you could easily take for granted. You will take on overall responsibility for the entire operation including accounting, management and payroll.

Be sure you are not just taking on someone else's problems, but if so, can you solve them?

### **102.04      A CHANGE OF LIFESTYLE**

Perhaps you just want a change of lifestyle. If your business is successful your gains in terms of finance and lifestyle can be huge. You would be able to increase your effectiveness and abilities by taking some professional development training.

*It may be difficult to separate work from home life. And, you must be prepared to face financial difficulties, especially in the beginning.*

### **102.05      CHANGING CIRCUMSTANCES**

Such things as unemployment, coming into money or a dramatic change of family circumstances may enable you or push you to start your own business. Perhaps this is something you've always wanted to do, and now being your own boss you would be able to organize the family commitments.

*Keep in mind that it is not always the best time to make decisions when you have just experienced something dramatic. Allow yourself the time to think it through completely even if the event was a positive thing. Be prepared for the long haul as historically new businesses are unlikely to provide a speedy return on your investment. Be prepared to work long hours and make sacrifices to achieve success.*

## **A PATH WITH FEWER RISKS**

### **102.06 FAMILY BUSINESS**

A family-run business is typically one in which more than half the shares are controlled by members of the same family, or one that has been passed between generations.

Working in a family business can bring valuable benefits compared to other businesses – from greater trust between staff to increased flexibility. But without careful management there can also be problems – from poor communication to clashes over pay.

In a family business you're likely to benefit from a range of advantages which you often don't find in other enterprises.

- **Common values** – shared by you and your family.
- **Commitment** – a shared understanding regarding working hours and the extra effort required to bring about success.
- **Loyalty** – strong family bonds provide the determination required for success.
- **Stability** – knowing you're building for future generations encourages the long-term thinking needed for growth and success.
- **Decreased costs** – family members may be more willing to make financial sacrifices for the sake of the business.

Things to consider:

- Allocation of percentages of ownership
- Responsibilities and decision making
- Rewards without offence to others
- Succession

It is critical to maintain good lines of communication to resolve potential problems. The best way to avoid conflict is to prevent misunderstandings from happening in the first place. Drawing up a family constitution can help you achieve this.

Here are two very good websites for more help and information:

<http://www.familybizz.net>

<http://www.sccfb.co.uk/BDOSHWebsite/bdouk/websiteContent.nsf>

Download a guide to family succession from the Association of Chartered Certified Accountants website (PDF)

[http://www.acca.co.uk/pdfs/members\\_pdfs/publications/20687](http://www.acca.co.uk/pdfs/members_pdfs/publications/20687)

Download research into family businesses from the Barclays website (PDF)

[http://www.business.barclays.co.uk/BBB/A/Content/Files/020531\\_Family\\_Business\\_-\\_FINAL.pdf](http://www.business.barclays.co.uk/BBB/A/Content/Files/020531_Family_Business_-_FINAL.pdf)

## **102.07 AN EXISTING BUSINESS OR FRANCHISE**

Some will feel more comfortable choosing to buy an existing business or the rights to a franchise – which may carry fewer risks than starting from scratch.

If you select to purchase an existing business be sure you understand fully the reasons as to why it is being sold. Be sure to research it thoroughly as the vendor may not be totally honest or upfront to inform you as to the real reasons for the sale. Be prepared that there may be a requirement to invest more on top of the purchase price in order to give the business the best chance for success.

An established business will have certain advantages: First, the market for the product or service will have been demonstrated. There will be valuable experience and marketing to draw on. Quite possibly finance will be easier to secure.

If you are considering a Franchise much will be proven already with regard to marketing and operational procedures. Many inherit problems would have been discovered and solved already. A franchise may come with financial support as well. You must be prepared that depending on the franchise the rights may be expensive and with many restrictions on its operation. In other words, you may be required to run the business within certain guidelines.

For more details about acquiring a going concern see Suite 304 on Purchase of an Enterprise.

## **OR, START WITH A GOOD IDEA**

### **102.08 A GOOD COMMERCIAL IDEA**

Everything starts with a good idea. It may or may not be practical it is up to you to research the idea and determine its commercial viability. Coming up with a new idea may be the kick-start you need to start your own business.

You cannot patent or copyright an idea, but the idea may result in something which may be either copyrighted or patented.

You might find a gap in the market or find a way to improve an existing product. Listen to people around you and when you hear something you feel you have identified a common complaint see if you can come up with a solution. This can include inventions, new products or services or just turning a hobby or special interest into a new business venture.

If you wish to start a business but don't yet have a product or service to sell, there are many ways to go about identifying one. Creating a knowledge tree can provide a visual way of thinking about possible market opportunities, as well as keeping up to date with current events and new trends in the market.

Once you've got a good business idea, take time to refine it. This will help you develop your ideas and provides a better foundation for converting them into successful businesses.

Be sure that it fits your needs as an individual and is compatible with your family life. If you are convinced it is a viable business proposition, take the time to ask yourself some questions:

- Could your experience, expertise or skills be used to develop the business?
- Will social trends boost or diminish the need for your product or service?
- Have you discussed your idea with family, friends and colleagues?
- What do you know about your main competitors?
- Is there a market, how big and how will you reach it?
- Have you conducted any market research to determine its commercial viability?
- What might go wrong? What could you lose?

You can get free professional help from your local government agency dealing with small businesses. Make an appointment with one of their advisers to talk over your plans.

## **102.09      SECURE INPUT FROM OTHERS**

Discussing your idea with family, friends or colleagues can be a useful way of viewing your idea in a different perspective. They may agree or disagree with its marketability. Their individual input can be very valuable especially if they have business knowledge and experience.

There is a proper legal way to discuss your idea with confidentiality. You should keep a ledger including time, date and who was presented with the idea. Secondly, you should require that they sign a 'Confidentiality Agreement' prior to discussing the idea.

However, once you put the idea into the public domain, whether you demonstrate your product, tell someone about it or write about it, it can no longer be deemed to be confidential or a trade secret.

Be sure to protect your intellectual property in the event you enter into a joint venture or partnership. Seek legal advice before taking any final decisions. Have your attorney draw up a contract defining who owns the idea and what your share of the profits will be. Protect your intellectual property throughout the development of your idea, as it is what sets you apart from competitors.

There are several legal ways to do this:

- trademarks (to protect your brand or logo)
- copyright (protection for original literary, dramatic, music and art works)
- patents (to protect inventions)
- design rights and registration (protect the appearance of a product)

## **DEVELOPING THE IDEA**

### **102.10 PLAN THE DEVELOPMENT OF YOUR IDEA**

Start by developing a plan, a good plan is essential to the creation of a successful business. You must have clarity of where you are going and how you are to get there. You must have clear goals and objectives right from the very start.

Write down what is to be accomplished at each stage. Produce a clear list of goals you wish to achieve. This will help you stay on schedule and allow you to make key decisions in the continuing development of your idea or business.

You may wish to consider:

- Research
- Planning
- Legal aspects
- Design
- Prototyping
- Marketing
- Operations
- Finance or financial structure

Whatever your goals or targets, be prepared to review each stage against your original schedule. This will allow you to properly monitor and evaluate your progress. In the course of this progression you must be prepared to take decisions based on your actual progress. So, whether it is a stage of design, funding or market testing; when that stage draws to a close it should be reviewed against your original goals and objectives. Remember to make your goals to be specific, measurable, achievable, relevant and time limited.

### **102.11 IS THERE A MARKET?**

It is imperative to establish the commercial viability of your idea. Does it fill a specific identifiable need or niche in the market? Is it based on a passing trend or will you be able to successfully capitalise on it before the trend disappears? Does it comply with relevant regulations and safety measures? Is it unique or how does it compare to your competitors? Have you properly researched the competition; locally, nationally or worldwide?

Research your potential market as thoroughly as possible. Speak to contacts and colleagues, friends and ask the public whether they would use such a product. Ask customers what improvements they would like to see. In order to initiate a more sophisticated search of the market look to **Suite 208 (Market Research)**.

Market research is critical to your initial business decisions and may be limited by the amount of time and money you have. However, the more information you have prior to start up, the better chance you will have of securing funding and of achieving success. Know your marketplace and understand your potential customers.

## **102.12 TEST THE MARKET**

If your product idea is such that you can build a prototype, then build the best version you can. Most ideas are developed through a succession of prototypes. Once you have developed a prototype, you need to test it. Take advantage of your contacts, friends and by using focus groups. Be sure to secure input from potential purchasers.

Have your product or prototype reviewed by a reputable organisation. A positive response will improve your funding capability. Even after your product goes into the market you should continue testing to uncover shortcomings and make possible improvements.

Once you have a completed product you can think about creating a brand. A brand includes everything that is visible to the customer. This will include its product name, logo, packaging and its delivery.

Your pricing policy will directly affect its marketability. Be sure to check your competitor's price or service and be sure that when you make your final decision that you have left yourself in a position to make a profit.

## **102.13 WILL YOUR BUSINESS MAKE MONEY?**

You must secure an accurate, conservative picture of your ability to make money. In almost all cases this must be estimated. You will need to construct a picture of your company expenses at minimum for the next year, or for up to five years. This must include all fixed and variable costs including estimates for salaries, and taxes. You must be prepared to account for your own financial requirements and the amount you are seeking to take out of the business. When this is applied to the total income estimated from sales you will be left with a picture of the gross profit you hope to make.

## **102.14 CREATE A FINANCIAL PLAN**

Now that you have gathered together your key financial information such as overheads, costs involved in operation and direct product cost, you can now create a financial plan.

The first step is to draw up a budget so you don't overspend or run out of money for essentials. The key is to maintain simple, good records.

It is important to be realistic. Financial advisers generally agree that the equivalent of three months expenses should be held on deposit for a rainy day.

Your budget should break down expenses into those that are fixed and those that are variable from month to month. You will need to make savings in all areas where savings can be made. The first year is vital and sacrifices will be necessary.

You may try to implement simple cost control systems across your entire business in order to identify areas where savings can be secured.

Try to make accurate estimates and predictions. Prepare monthly cash flow forecasts for at least a year in advance. Make sure you have sufficient cash flow to cover each month's payments.

## **102.15 CASH FLOW**

Cash and profit are very different, a fact which is often misunderstood. Cash flow is the balance of money that flows into, and out of, your business each day. It is the actual payment of money, as opposed to monies owed by your debtors or to your creditors. Cash is required to pay the bills and which allows the business to continue. The need for cash is even greater when your business is growing and you are extending credit to customers.

If you sell on credit, effective credit control is extremely important as your cash inflow is delayed until you are actually paid. A business that purchases on credit and is paid in cash, such as a retailer, is at a great advantage in cash flow terms.

It is essential to have an accountant for your business. You will find this is a good investment.

## **102.16 TO SECURE FUNDING OR FINANCE**

One of the most important obstacles you will face will be your ability to secure proper finance or funding. First you must have completed all the initial stages down through the budget, because you need to know exactly the amount of funding you require and you must determine exactly what you are willing to give or pay in order to secure it. It may take longer or cost more than you first expect and therefore, your funding requirements may change during the course of your product or company development.

You must understand how to choose the right type of finance for your business and you must know where to go to secure it. The legal issues involved in securing business finance are complex, and should always be reviewed by a qualified attorney.

Some sources to consider are: loans, family loans, overdrafts, grants, joint ventures, shares, or equity finance from business angels or venture capitalists.

## **102.17 JUDGING CHECKPOINTS**

You must set goals and checkpoints to determine the commercial viability of your product and business objectives. You have to allow yourself the ability to decide whether to continue along the same lines or whether to reconsider your original objectives. Ask yourself if your goals and checkpoints were reasonable. If this is

the basis for the problem then redefine or revise your objectives. Your plans should be flexible and incorporate all that you have and are learning. It could become possible where you should totally reconsider your original idea.

This could be because: you have determined that your product or service isn't commercially viable; or that it is not technically viable.

## **102.18 HELP AND SUPPORT**

Almost all businesses require some form of help or support in their development; this is especially true in the early days.

Speak with people already in business regarding your plans and ideas. See if they are willing to share from their own experiences. Seek professional assistance from your local business agency, the internet, your bank and your accountant.

Bear in mind that you will have to pay for specialist knowledge and advice from financial advisors and accountants.

It is likely that your funding requirements will differ during stages of your company development. Identify each stage of development and organize checkpoints to help evaluate required needs.

Be prepared with a business plan when approaching banks, potential investors or government agencies for money. See Suite 208 (Creating a Business Plan)

To identify programs that may help your business you can begin by going to the seventh floor in this Aid to Business site.

## **WHICH PATH TO BUSINESS?**

### **102.19 FULL TIME**

For any number of reasons you may select to go directly into business in a full-time capacity. This would allow you to devote all your time and enthusiasm to the development of your business. It may very well be that timing is critical to the ultimate success of your business venture. Giving one hundred percent of your time and energy would allow you to react to new developments or problems immediately as they arise.

However, you must be prepared to manage your personal affairs without an income until your business gets off the ground.

You may be required to: Use your savings, live off your spouse or partner's income, borrow from family or friends, get a loan or seek a business partner.

## **102.20 PART TIME**

If your present job or business allows, you could take a cautious approach and work part-time. This might allow you to work on your business either in the evenings and weekends or even during part of the day. When your business has progressed to a more substantial level you could then consider the forfeiture of your steady income.

Although you would still be earning an income while getting your new business off the ground, it would be more stressful and tiring. It would most likely take longer to get the new business properly operative. But, with today's technology such as answer phones, texting, email and the Internet it is possible to communicate at times when you are not available in person. You will require tax advice on whether both incomes would be taxable.

## **102.21 MUST I INFORM MY EMPLOYER?**

It is always ethically and morally proper to advise your employer of your intentions. In most cases, you may not be required by law to advise him however, there may be a clause in your contract preventing you from doing other work.

It is possible to seek more flexible working arrangements. This could involve rearranging your working hours, your shift patterns or work week.

## **102.22 UNEMPLOYED**

If you are on a form of Unemployment allowance and wish to get back into employment by starting your own business, enquire into what the government can do to assist you with a new business.

Try not to become discouraged as there are many schemes designed to assist people wishing to get off benefits. Ask what would happen to the benefits you are receiving if you were to start a new business.

## **102.23 HOW TO SURVIVE**

Usually a new business will not make a profit in the first year however you may earn enough to cover basic expenses. Even if you exceed this it is common that you may wish to re-invest these funds back into the business. In any event you should be prepared to use an alternative source of income or funding during this period.

A financial advisor, accountant and even this site will be helpful with advice and contacts in providing a proper solution.

