

Essential Tips For Small Business



About The Author

My name is Paul Stankiewicz BSc(Hons) FCA. I am a Fellow of the Institute of Chartered Accountants In England & Wales. I have been a qualified Chartered Accountant for over 25 years.

Following a degree in science from Kings College London I trained & qualified at one of the top firms of Chartered Accountants in the UK, BDO Stoy Hayward and then worked as a manager & partner in a smaller Practice.

I then moved into industry where I worked as a Finance and Commercial Director in various international organisations where my experience included managing turnarounds, start-ups, rapid growth businesses, IPO's, large scale system implementations, strategic reviews, downsizing, tax restructuring and treasury.

I sat on the Boards of many of these organisations and my experience has been truly international from the UK to Europe, the Middle East and SE Asia.

After 12 years in industry I set up Paul Marks & Co a firm of Chartered Accountants in Wimbledon and now concentrate on providing tax & business advice to individuals and corporates as well as helping small & medium sized business owners understand the value of embracing new technology, best business practice and helping them accomplish their growth plans.

For some of my clients I also act as a part time Finance Director.

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Introduction

80% of Businesses fail in their first year of trading

The Statistics are dire – According to UK government statistics in 2012, 80% of new businesses failed in their first year and 50% of those are unlikely to be around by 2015. Success or failure will come down to how well you plan, how good your products or services are, how well your business is managed financially and how well you market your products or services. A combination of all four elements is required for a successful sustainable business.

There are many fatal common mistakes that businesses make that will mean either business failure or have a massive detrimental impact on your business.

In other words, to build a better business you need to apply AND combine proven planning, financial and tax saving strategies with proven marketing strategies.

This is WHY businesses fail – or don't prosper as much as they should.

If the business owner ensures that the business basics are right from the outset and he is managing and monitoring his business properly he will give himself the best chance of success.

Tip 1

Set goals and prepare a plan

Fail to plan, plan to fail. All new business require a well thought out business plan and goals backed up by budgets, forecasts, projections, and a road map of how they are going to get there.

Invariably these plans will have market research, competitor analysis, profit forecasts, and cash flow projections.

If you don't know what your goal is then you have no target to focus on. Your decision making becomes reactive since there is no forward looking element to it

The very process of preparing a business plan will crystallise your thoughts about your business and what you want to achieve and how you are going to achieve it.

It gives you FOCUS and PURPOSE

The business plan will clarify your business idea and define your long-term objectives. It provides a blueprint for running the business and a series of benchmarks to check your Progress against. It is also vital for convincing your bank or investors — and possibly key customers and suppliers.

It has to be remembered that preparing a business plan is not a five minute exercise but is certainly is a worthwhile and necessary exercise.

FIRST – Set your goals, what is it that you want to achieve. Examples may include
Build a business and sell it in 5 years?

- Have sufficient income to sustain yourself and family – it may be that you have to work part time initially
- Be the preferred provider of your product or services in your area.
- Get X% market share in 5 years
- Reach £X turnover in 5 years
- Doing 30% of your business overseas

Of course the goals have to be reasonable but there is no point in limiting yourself either. There are many examples of multi-million pound businesses that started in someone's bedroom

SECONDLY – How are you going to get there. Any journey requires a roadmap of how to reach your destination. So a lot of thought needs to be paid to how will achieve your goals. You must research your business proposition and your target market.

- How big is your market?
- Market research?
- What differentiates your product or service?
- Who are you competitors and what do they do?
- Maybe you will buy a business to achieve your goals
- How will I market my business

- Do you need premises
- Do you need a website
- Insurance
- What business structure should I use – Sole Trader, Partnership, Limited Company or Limited Liability Partnership

The list goes on.

FINALLY – Prepare the plan.

Most business plans comprise of the following sections

- Executive Summary
- The Business
- Markets & Competitors
- Sales & marketing
- Management
- Operations
- Financial Forecasts
- Funding Requirements
- Risks To Your Business
- Appendices

We regularly help new and existing businesses prepare compelling business plans for various uses whether it be bank, equity funding or to crystallise your business goals. The business plan is yours and must be prepared by you but we can help. Certainly it is always advisable to get an accountant help prepare the financial forecasts. Pop in for a coffee and chat about how we can help

Tip 2

Cash Is King Part I – Know Your Funding Needs & Sources

It's vitally important to understand the cash peaks and troughs in your business. It can mean the difference between success or becoming insolvent and business closure. Additionally careful injection of capital at the right time can take your business to the next level.

If you are to remember one thing from this report it is 'CASH IS KING' and it always will be. You cannot operate even if you are profitable without cash to buy your supplies or pay your staff and you cannot expand without an injection of cash.

Funding falls into two main areas EQUITY FUNDING & DEBT FUNDING

If you have enough of your own capital, convincing others to invest in your business is not an issue. However, when seeking a bank overdraft or loan, applying for certain types of government aid, or when trying to attract new investors or partners, you will need to present a convincing picture of your business' financial condition and future prospects.

Depending on your current business whether it's a mature business or start up and depending on what the funding is for will determine which source of funding you require.

The various sources are:

- Your own money or that of friends and family?
- Bank loans and overdrafts
- Government Grants – such as the enterprise investment scheme
- Venture Capital
- Business Angel Funding
- Crowd Funding
- Private equity

Regardless of which sources of finance or support you intend to approach, you will need to present a convincing picture of your business' financial condition and future prospects. We can prepare compelling business plans for debt or equity funding

Tip 3

Keep Proper Accounting Record

Ignore this one at you peril.

In many cases it is a legal requirement to keep adequate accounting records and you could find yourself on the end of a hefty fine from HMRC if you don't. The vast majority of businesses that fail didn't keep proper financial records. Equally important is a business owners' ability to understand what is going on in his business.

Every business registered for VAT is required to maintain financial records according to the guidelines given by HMRC. Similarly, it is a requirement of the Companies Act that every company should keep proper accounting records of money received and paid, of all sales and purchases, and of assets and liabilities.

HMRC requires every business which employs staff to keep proper records for Pay As You Earn (PAYE) and for the calculation of tax liabilities. All employers' payrolls are linked to HMRC using Real Time Information. In some types of business, there are additional records that have to be kept to satisfy government requirements.

If you think this is unimportant then:

- You have no reliable information to assist you with your everyday business decisions;
- You pay unnecessary fees to your accountant;
- You cannot supply information to your bank, mortgage lender etc. and so get financial help when you need it

DON'T RISK YOUR BUSINESS

Don't think you don't have time or ignore this point there are many cost effective ways keep your records in order and some start from as little as £10 per month. We offer the licence to use online accounting software free to our clients

Tip 4

Don't Think The Taxman Is Logical Or Patient

On top of that HMRC makes a lot of mistakes. HMRC themselves in one year admitted that almost 5M people paid the wrong tax under PAYE.

Tax evasion is taken very seriously by HMRC and criminal proceedings usually follow. The penalty regime in many cases is extremely harsh for late filings and mistakes.

You **MUST** get your tax affairs in order from day one. If you are a self-employed sole trader you have to register with HMRC, if you are a limited company likewise for corporation tax and payroll. If your business is above the VAT threshold you also need to register for VAT.

You need to maintain records proper financial records enough for the tax authorities.

HMRC will soon have powers to take money directly from your bank which will be based on an estimate. There are many examples of HMRC aggressively investigating and this is not a pleasant experience if you are on the receiving end of an investigation. You will not have any defence if you cannot produce the evidence and a proper paper trail.

The tax code is not logical and there are literally thousands of allowances that can be used to reduce your tax bill, but unless you are an expert you cannot possibly know them all.

There is good news though and an easy solution. **TALK TO YOUR ACCOUNTANT**

The key points are:

- Talk with your accountant first
- Register your business for all necessary taxes
- Keep proper financial records and a paper trail
- Don't file things late or you will get a hefty fine

There are many ways to legitimately save tax. We are experts in all areas of taxation and our tax planning service will help you through the maze so you pay as little as possible. Your tax savings could be considerable. We also ensure our clients are complying with the tax legislation thereby reducing the risk of an enquiry or incurring any fines. We constantly advise and monitor our clients' compliance and update them on any changes to the tax code.

Tip 5

Know Much Real Profit You Are Making

Many businesses do not have adequate systems for identifying the amounts of profit or loss generated by different products and services, or even by the business as a whole, yet this information is absolutely essential if the business is to grow stronger.

It is also important to know the costs of different areas of administration, so that overheads are not allowed to swallow the profits made from gross margins.

To keep track of where profits and costs are coming from, you may need to have a properly designed management information system which can provide all the essential facts quickly and accurately.

Annual accounts are not enough to control a business.

You must know what is happening to profits and losses on a much more regular basis. Most businesses need to produce operating statements at quarterly intervals at least and, better still, at monthly intervals.

One of the best tools to monitor what's going on and to aid decision making is to use Key Performance Indicators or KPI's where you focus on a few key indicators in your business rather than look at the mass of financial data that's produced.

They fall into three main areas Sales, Costs and Working Capital and reflect the performance and progress of your business and:

- Are measurable.
- Can be compared to a standard, such as a budget or last year's figures and even competitor KPI's
- Can be acted upon

To get the best KPI's a business has to identify the key Business Drivers for their business. I have not got time to go into details here but I give a couple of examples.

1. The profitability and cash flow of house builders is greatly affected by housing prices and sales activity levels. These in turn are affected by local demand and supply, and interest rates. But it is all too easy for a house builder to ignore these key drivers. There will always be sites which are running over budget and other distractions. Suddenly, the house builder may find that while he was busy building houses, the market has significantly declined
2. For a food processing company cost drivers are inevitably going to be direct labour costs and yield (Both have a major impact on the gross margin)

In summary if you do not have relevant and useful up to date management information

- You have no reliable information to base decisions and so will not be able to grow your business.
- You pay unnecessary fees to your accountant.
- You cannot supply information to your bank, mortgage lender, investors etc. when they need it

There are many good cost effective off the shelf solution. We offer our clients the licence to use cloud or online accounting FREE as part of our packages.

- We can help you select the right package
- Train you in how to use it
- Set up a regular reporting system to provide the vital information you need to make decisions

With a little training and guidance you will make better decisions that will inevitably aid your growth plans. It will save you time and money in the long run and is essential if you want to take your business to the next level

Tip 6

Cash Is King Part 2 – Invoice Promptly & Collect Your Debts!

You wouldn't believe how common a problem this is. It maybe that once the sale is made you move on to the next sale and also many people find collecting debts a distasteful exercise and so don't prioritise it.

Remember **A SALE IS WORTHLESS UNTIL THE MONEY'S COMES IN!**

There are many businesses that run on overdrafts and paying extra interest due to lack of billing promptly and poor collection processes and procedures. In many cases the extra interest payments far out way the cost of employing a credit controller to reduce debt collection periods.

Are you doing credit checks on prospective customers, are they high risk? Do you have a process in place once a debt goes 30 days overdue, 60 days overdue etc. I have a lot of experience of even large companies that didn't bother spending time and effort collecting debts once they were over say a year old. The companies just got into bad habits. I made an immediate impact by going after these old debts.

Any business **MUST** have systems and processes in place to assess new credit customers, make sure you invoice promptly and that the debt is collected on a timely basis in accordance with your terms and conditions. For unpaid debts there needs to be an adequate process in place and it needs to be followed.

You can always also use a debt collection agency and invoice factoring is also an option.

It is often wise to separate the sales function and the collection function so that the business relationship is not compromised, but it depends on your business and the relationships you have with your customers.

Again I will re-iterate **CASH IS KING**. This mantra must never be forgotten as lack of cash is the number one thing that will definitely cause business closure very quickly.

Come and talk to us. We can assess whether your current processes and procedures are robust enough and help you design proper sales and credit control procedures that will save you paying the bank your hard earned profits and make sure you are collecting all your debts.

Tip 7

Cash Is King Part 3 – Constantly Manage Your Cashflow

I know I go on about cash but a business can survive for a while without sales and profits but not without cash. In my years in business all the best business understand the importance of knowing what their peaks and troughs will be today, tomorrow, next week, next month and in many cases a year.

Forecasting and monitoring becomes increasingly important the bigger you get. It gives you time to arrange funding when you need it and identifies surpluses which can be used to invest.

You staff won't be happy if at the end of the month you don't have enough cash to pay them because you didn't arrange funding and your cash profile means your customers only pay after month end.

It is vitally important to prepare monthly (preferable weekly) and yearly cash forecasts and then monitor these against actual cash positions.

Of course you need something to base these forecasts on and these will be built up from your reporting system and from your budgets and profit forecasts.

So again keeping proper records and a management reporting system are basic requirements to build up an accurate cash forecast.

Come in for a cup of coffee and a chat. We work closely clients in helping them build up cash forecasting techniques and reports.

Tip 8

Price Your Product Or Service Correctly

How much are you going to charge your customers for your product or service?

Getting your pricing right could double your profits at a stroke.

Many start-up businesses work out a cost figure for each product and add a modest mark-up - known as cost-plus pricing. While this method is common, it is not the only way to arrive at a price. Invest serious thought into your pricing methodology at an early stage.

Pricing usually depends on three things

- Value - What is your product or service's value to your customer
- Cost – How much does it cost to produce your product or service
- Competitors – How much do they charge

Value can be a hard thing to determine and if you are offering a product or service that is unique and highly valued you can get yourself out of the price competition altogether and charge a higher price.

There are two main ways of pricing, cost plus and value pricing, both require an understanding of your market and your competitors. There also many tactics such as lowering your price to increase volume or loss leaders (to sell a product at a loss to get new customers so you can sell to them at a higher price later)

What's also important is that you know precisely how much gross profit you are making on each of your products or services, and what your sales volumes and sales mixes are at any one time.

Once again if you don't have a management reporting systems that can tell you this and also maybe by geographical area how do you know where to concentrate your efforts and identify negative trends

We can help by either reviewing your current pricing and reporting or by recommending and installing a new system tailored to your business. There are many good very reasonable priced systems such Sage or Xero that will provide you with essential insightful information.

Tip 9

Review Your Costs regularly

There are various ways to increase profits one is to make more sales the other is to reduce your costs for the same level of sales.

Some of the main factors are

- Eliminate unnecessary costs. You need to constantly keep your costs under review, e.g. are you on the right energy tariff, can you get your raw materials cheaper elsewhere with the same quality, can you negotiate lower bank charges, are you paying too much for your insurance and do you need all the cover you are paying for.
- Ensure your assets are being utilised efficiently. For example if you have empty space in your property maybe you can sublet, identify any inappropriate assets that are not being used effectively
- Understand your hidden costs. As an example if you recruit on an ad hoc basis and you recruit the wrong person, not only will you have to pay the recruitment fee if you used an agent, the knock effect of more training and the fact that the employee is below the standard necessary and so may make many mistakes with all the follow on consequences for your business. It's important to identify hidden costs and put effective policies and processes in place, if possible, to minimise errors and reduce the need for fire-fighting.
- Use the latest technology. An example of this cloud accounting software which is a very cost effective and flexible solution for most businesses up to a turnover of £5M. The cost savings in not having to maintain the software on your equipment and the flexibility of being able to use it anywhere on any device make it very effective.
- Using Skype or VOIP can reduce your landline costs and maybe appropriate for smaller businesses
- Go paperless if you can Using electronic billing and filing all your documents on a computer can save you stationery, postage and storage costs

It goes without saying that we can help you conduct cost reviews and identify areas where you could reduce your cost base

Tip 10

Don't Do Everything Yourself

- Teams always beat individuals
- You cannot be an expert in everything
- You haven't got time to do everything
- Nobody has ever done anything alone

And the reasons why people think they can do it all by themselves are

- Cost – Thinking it's cheaper to do it yourself
- Control – You don't want to lose control
- Trust – You don't trust anyone else to do it

The fact is you CANNOT do everything yourself and the bigger your business gets the more true it becomes, so you have to decide early on what you are going to spend your time on and what you are going to get someone else do or OUTSOURCE.

There are many successful businesses that outsource their non-core function so that they can concentrate on what they do best.

Outsourcing in many cases is much cheaper than doing it in house as the outsourcer benefits from a wealth of experience and benefits of scale. I.e. they do this for many businesses and so can keep costs much lower than you can.

We provide many outsourced services to our clients from payroll to a complete bookkeeping, accounting and tax compliance Service. Come and talk to us about how we can help and tailor our services to your particular needs.

Tip 11

Make Sure You Talk To An Accountant

Well I would say that wouldn't I but seriously mistakes made by people with their tax affairs arise out of understandable ignorance. Tax law is very complex with all sorts of inconsistencies. If you are not an expert then the chances of you making an expensive error is greatly increased. It is also not a good use of your time. Better spend your time marketing and getting new customers.

The same goes with preparing accounts and instigating a management reporting system. How do you know which one to pick, do you understand how to prepare a profit and loss account and balance sheet? What KPI's should I be using in my business?

Every business needs the help of an expert qualified accountant. If you are a start-up or small business you can engage an accountant. If you are a bigger business you are likely to have a Finance Director, full time or part time. Either way you are going to need help.

After all we are the experts not you

We are Chartered Accountants with extensive international experience in both industry and practice. Come and have a coffee and a chat about how we can help

Tip 12

Have A Unique Selling Point

If you look at the Wikipedia definition of unique selling Point (or proposition) it defines this as:

1. Each advertisement must make a proposition to the consumer—not just words, product puffery, or show-window advertising. Each advertisement must say to each reader: "Buy this product, for this specific benefit."
2. The proposition must be one the competition cannot or does not offer. It must be unique—either in the brand or in a claim the rest of that particular advertising area does not make.
3. The proposition must be strong enough to move the masses, i.e., attract new customers as well as potential customers.

It's difficult sometimes to define what is unique about your business compared to others but if you cannot differentiate yourself from the competition it makes it much more difficult to sell to them and your product or service becomes price sensitive.

Defining your USP requires a bit of creativity and soul searching. A good way to start is to look at how other successful businesses undertake their advertising and the message they sell.

Some businesses define their USP based on service, some on time, some on quality or luxury. A famous example was FedEx's 'When it absolutely, positively has to be there overnight – Guaranteed' in a 1980's. I think it is obvious to see what the USP was and nobody else was offering this at the time.

Sometimes your USP is just you if you are an expert in your field.

Tip 13

Don't Market To Everyone

It's much easier to sell to people that are more likely to buy your product than to everyone. I think this is obvious.

But a lot of business try to market to everyone thinking that their market and therefore sales will be bigger. However statistics have shown that you are far better narrowing your marketing efforts to your target market.

I myself run a small firm of Chartered Accountants and my target market is small businesses and individual sole traders. No point in me trying to sell to BP or Tesco's as even though I think I might be of help they are unlikely to pick me as their accountants. It is a waste of effort. No point in selling a slimming product to underweight people or selling home insurance to non-home owners.

Some Business spent a lot of time identifying their target market and compiling lists

You need to concentrate your efforts on people that have a higher probability of using your product or service.

The most important first step is to identify your target market and then try and determine how you can narrow your marketing efforts to you target market.

Tip 14

Market Using A Range Channels

For fledgling businesses you may have a great product or service but unless you get the message out to your audience you won't sell anything.

The more that you get the word out the more likely you will increase your sales.

You should be using all methods to advertise and market your goods & services and then analyse which methods produce the best results and spend more time and money on these. These are some of them

- Advertising in the local media such as newspapers, yellow pages, radio, TV
- Ensuring your website is optimised so it ranks highly in search engines
- Use of google AdWords
- Direct marketing via letters, postcards
- Social Media
- Leaflet drops
- E-Mail marketing
- Networking
- Exhibitions
- Referrals

It is important to keep a record of which channels produce the best results.

Tip 15

Use Testimonials & Try And Provide A Guarantee

When people buy they have questions in their mind because they do not know you. So the more that you can dispel their fears and objections the better you can remove those barriers to making the sale.

Two ways of doing this are using testimonials and guarantees.

Testimonials give comfort that what you say about yourself is true. Similarly a guarantee is a powerful tool to allay people's fears about whether you can deliver what you say you can.

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