

# Darlington Business Venture - Survival

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## How do I survive until my business is off the ground?

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off the ground?*

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### Introduction

You may need an alternative source of income while your business is growing. Many businesses do not make a profit in their first year but can earn enough to cover their outgoings. Even if your business does make some profit, you may want to re-invest it to help your business develop.

This guide gives advice on how to keep your business afloat in the early days of starting up. It will help you work out your profits and financial needs, reduce your spending, re-invest your money and find other funds.

A financial adviser or accountant can help you address these issues in the early days.

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### Forecast your personal financial needs

When starting your business you will need to make a realistic forecast of your personal financial needs. A **personal budget** is a plan detailing your domestic financial needs for the year. It should try to set limits on the amount you plan to spend each month on various items like rent, food and housekeeping.

Tracking your personal spending can help you find out how much money you will need to take from the business. You can **record how much you spend each month in our personal budget spreadsheet (XLS)** and adapt it to your individual needs.

You can now work out how much money you will need each month. If you multiply the monthly figure by 12, and make adjustments to cover one-off spending such as holidays

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or car tax, you will know how much you need to live on during your first year of trading.

It is important to be realistic. You may need to find other funds or borrow money. Financial advisers usually say that the equivalent of three months money should be held on deposit for a rainy day.

Some expenses, such as your rent or mortgage are likely to be fixed, whilst your spending on other items may change from month to month. You need to keep a close eye on the areas where savings can be made - such as leisure or travel. The first year in business is vital to its success and you may have to accept that a financial sacrifice of some sort is required to keep on trading.

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### How much money will your business make?

You need to identify how much money your business is likely to bring in over the coming year and then how much profit you hope to make.

You can do this by:

- estimating your total income from sales
- estimating your expenses
- working out a figure for salaries and dividends, including tax
- working out the difference between your financial requirements and the amount you are prepared to take out of the business

This will leave you with the amount you potentially need to find from other sources.

For advice on what you will need to take into account and plan for, see our guide on how to **prepare a business plan**.

### Profit and cashflow

It may not be easy to calculate exactly how much your business will make in its first year, so concentrate on cash. Cash and profit are very different, a fact which is often misunderstood. A business can survive for a short time without sales or profits but not without cash.

Profit is the difference between the total amount your business earns and the costs it must pay out over the trading period - usually a year.

Cashflow is the balance of all the money flowing into, and out of, your business. It covers actual payments of money, as opposed to what is owed by your debtors or to your creditors. Cash pays the bills and allows trading to continue. The need for cash is even greater if your business is growing and extending credit to more customers.

The main outflow of cash is the money you spend including salaries and overheads such as stock, raw materials and any other capital spending.

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

Many businesses rely on bank overdrafts and quickly reach their borrowing limits. It is therefore important to think carefully about

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your cashflow and reduce the need to rely on an overdraft. See our guide on [cashflow management: the basics](#).

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### Make savings

There are ways you can save money on goods and services, both at home and in your business.

#### Making personal savings

You could reduce the amount of money you pay out each month by **consolidating your debts**. This might mean taking out a further loan to cover all your existing commitments. One single monthly payment will often work out cheaper than a number of separate payments to credit card companies or banks. Many credit card companies now offer 0 per cent APR on six-month periods with balance transfers, but again you should look carefully at exactly what is being offered.

Today many companies offer different mortgage options. **Re-mortgaging** your property can reduce outgoing monies that would otherwise be tied up.

There are many ways you can save money on essential goods and services. Many **utility companies** offer attractive deals when you change to a new supplier. You could think about changing your telephone, electricity, gas or water supplier. Look carefully at exactly what is being offered by each of the utility suppliers. You may find, for example, that you can make savings if you receive both your gas and electricity from a single supplier.

You can also try to reduce your everyday expenses. For example, you could sell your

car and buy one that is cheaper to run or use public transport.

[Read about personal cost savings on the Motley Fool website.](#)

#### Making savings in your business

You could implement simple cost control systems across your whole business to identify scope for savings. You could cut unnecessary or excessive costs, such as heating your premises at night or find low price suppliers for the goods or services. Consider leasing goods or buying them second hand. Consider whether you can save money by running your business from home. See our guide on how to [use your home as a workplace](#).

You can [find information on cost cutting on the Microsoft bCentral website](#).

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### Other sources of income

You will almost certainly have to find other ways to finance your needs during the early days of your business.

There are a number of options open to you. You could:

- Use savings - make sure that you have an emergency rainy-day fund which should add up to three months spending.
- Release equity from an existing asset - for example, trading in your car for a cheaper one.
- Sell unwanted assets to create income - many people have things that they do not use or want that can be sold at auctions or private sales.

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- Get a loan from your family and friends. In most cases people who borrow from family or friends do not pay as much interest on such loans. However, be aware of ill feeling that may be caused if you are unable to repay on time. See our guide on [loans from friends and family](#).
- Borrow against future income by selling your debt to a third party - see our guide on [debt factoring and invoice discounting: the basics](#).
- Get an overdraft. Remember that the overdraft will have to be repaid, and the interest rate may be high. See our guide on [loans and overdrafts](#).
- Seek investment from external sources in return for a share in your business. See our guide on [equity finance](#).
- Take on a second or part-time job - this will provide a useful source of income but it is important that it does not distract you from your priority of running your business.

[Use our interactive tool to find the right finance for your business needs.](#)

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### Prepare a financial plan

Once you have gathered together all your key financial information such as estimates, overheads and expenses you can produce a financial plan.

The first step is to draw up a **budget** - a plan for spending and saving your money.

It is important to stick to a budget so you don't risk overspending or running out of money for essentials. The key to budgeting is maintaining simple but good records. You will need to keep track of where your money

comes from and where it goes.

You should:

- prepare budgets showing the level of sales and profits you expect to achieve, and the costs involved in doing so
- estimate your total sales - see our guide on [how to forecast and plan your sales](#)
- prepare monthly or weekly cashflow forecasts (which should be regularly updated), looking ahead one year - overheads such as rent can be accurately predicted
- make sure you will have enough money on the day to cover each payment

For more information on preparing a financial plan read our guide on [budgeting and business planning](#).

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### Find support

Most businesses need assistance at some stage in their development. This is especially true of businesses in the early days.

There are a number of sources of help, including:

- local Business Links
- start-up schemes
- schemes for young starters - eg Shell LiveWIRE, Prince's Trust
- financial advisers
- accountants

Bear in mind that you will almost certainly have to pay for the specialist knowledge and

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advice from financial advisers and accountants. You can [get advice on choosing a financial adviser on the Association of Independent Financial Advisers \(AIFA\) website](#).

It is a good idea to have an accountant for your business. Although having an accountant is an additional expense, it is a good investment. For more information, see our guide on how to [choose and manage an accountant](#).

The Prince's Trust is an initiative to help young people to succeed in business. The Trust offers advice, opportunities and financial assistance. [Find out how the Trust can help you at the Prince's Trust website](#).

Another body that helps new businesses is Shell LiveWIRE. This organisation aims to encourage young people aged between 18 and 30 to start up their own business. [Find out what help you can get at the Shell LiveWIRE website](#).

If you're on **jobseeker's allowance** and want to get back into employment by starting your own business, [find out how the New Deal can help you on the Jobcentre Plus website](#).

You may also be entitled to Working Tax Credits. These are payments to top up the earnings of working people on low incomes, including the self-employed. You can find out about Working Tax Credits by calling the HM Revenue & Customs (HMRC) Tax Credit Helpline on Tel 0845 300 3900.

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### Here's how I survived my first year in business

#### Carolyn Howe

#### Piggy's

#### Carolyn's top tips:

- "Write a financial plan."
- "Take as little out of the business as you can."
- "Monitor your cashflow."

Carolyn Howe opened her children's shoe shop, Piggy's, in Stamford, Lincolnshire in 2001. Careful financial planning helped to get the business off the ground and paved the way for expansion into larger premises, the employment of six staff and the sale of a full range of children's clothing. Here Carolyn explains how she coped in the early days.

#### What I did

#### Plan ahead

"I put together a financial plan with help from my accountant, including budgets and sales forecasts. The plan was really useful in the first year for monitoring sales targets and estimating stock demand.

"It's important to estimate personal financial needs too, so you can forecast what you'll need to take out of the business. In practice the amount varied from month to month according to what the business could bear, but at least I knew what the limits were.

"It was quite difficult estimating monthly sales, but it helped that I'd researched the local market, finding out things like the number of school-age children in the area. The best rules for forecasting are not to be

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over-optimistic and to put something aside for emergencies."

### **Get financial support**

"Looking at the financial plan, it was obvious that I was going to need additional funding.

"I secured a bank loan to cover start-up costs like initial stock and refurbishing the premises. I negotiated a long repayment term, which helped keep monthly outgoings to a minimum.

"In addition, my bank put me in touch with Business Link and I got a start-up grant towards IT costs. It wasn't a huge sum, but every little helps!"

### **Keep costs down**

"Cutting costs included simple things like finding the best deals on energy bills for the shop. I also rented the smallest premises I could get away with, expanding only once the business could afford it.

"Shop fitting was a major start-up cost. I wanted an upmarket look, but by shopping around, I found cheaper ways to achieve the same effect.

"Keeping costs down at home was important too, just simple things like cutting back on luxuries. The less you take out of the business, the better the chances of surviving the first year."

### **What I'd do differently**

#### **Understand the difference between cashflow and profit**

"In the first couple of months, sales were

good and it was easy to watch the money coming in and assume the business was making a profit when it wasn't. I now monitor cashflow each week and wait until the end of the year to calculate profit."

### **Stick to the budget**

"On early stock buying trips, I sometimes spent more than I'd intended. Nowadays I always go in with a budget and stick to it, no matter how persuasive the sales rep."

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## Helplines

### **Business Link Helpline**

0845 600 9 006

### **Prince's Trust Helpline**

0800 842 842

### **Shell LiveWIRE Helpline**

0845 757 3252

### **HM Revenue & Customs Newly Self-Employed Helpline**

0845 915 4515

### **HM Revenue & Customs Tax Credits Office Enquiry Line**

0845 300 3900

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**Manage your personal list of starting-up tasks with our Business start-up organiser | Find your local Business Link in our contacts directory | Use our personal budget spreadsheet template (XLS) | Budgeting and business planning | Are you ready to start up? | Common mistakes when starting up - and how to avoid them | Download our sample cashflow projection spreadsheet (XLS) | Use our interactive tool to find the right finance for your business needs | Prepare a business plan | Cashflow management: the basics | Identify potential cashflow problems | Tax advantages for those starting up in business | Use your home as a workplace | Loans and overdrafts | Loans from friends and family | Debt factoring and invoice discounting: the basics | Equity finance | Grants: the basics | Choose the right finance when starting up | Choose and manage a business adviser | Choose and manage an accountant | Forecast and plan your sales | Starting a business when you are young |**

**Find out about personal cost savings on the Motley Fool website**

**Read information on cost cutting on the Microsoft bCentral website**

**Buy an online course on Working To A Budget at the learndirect business website**

**Find out how the New Deal can help you become self-employed at the Jobcentre Plus website**

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Related web sites you might find useful

**Read advice on choosing a financial adviser at the Association of Independent Financial Advisers website**

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