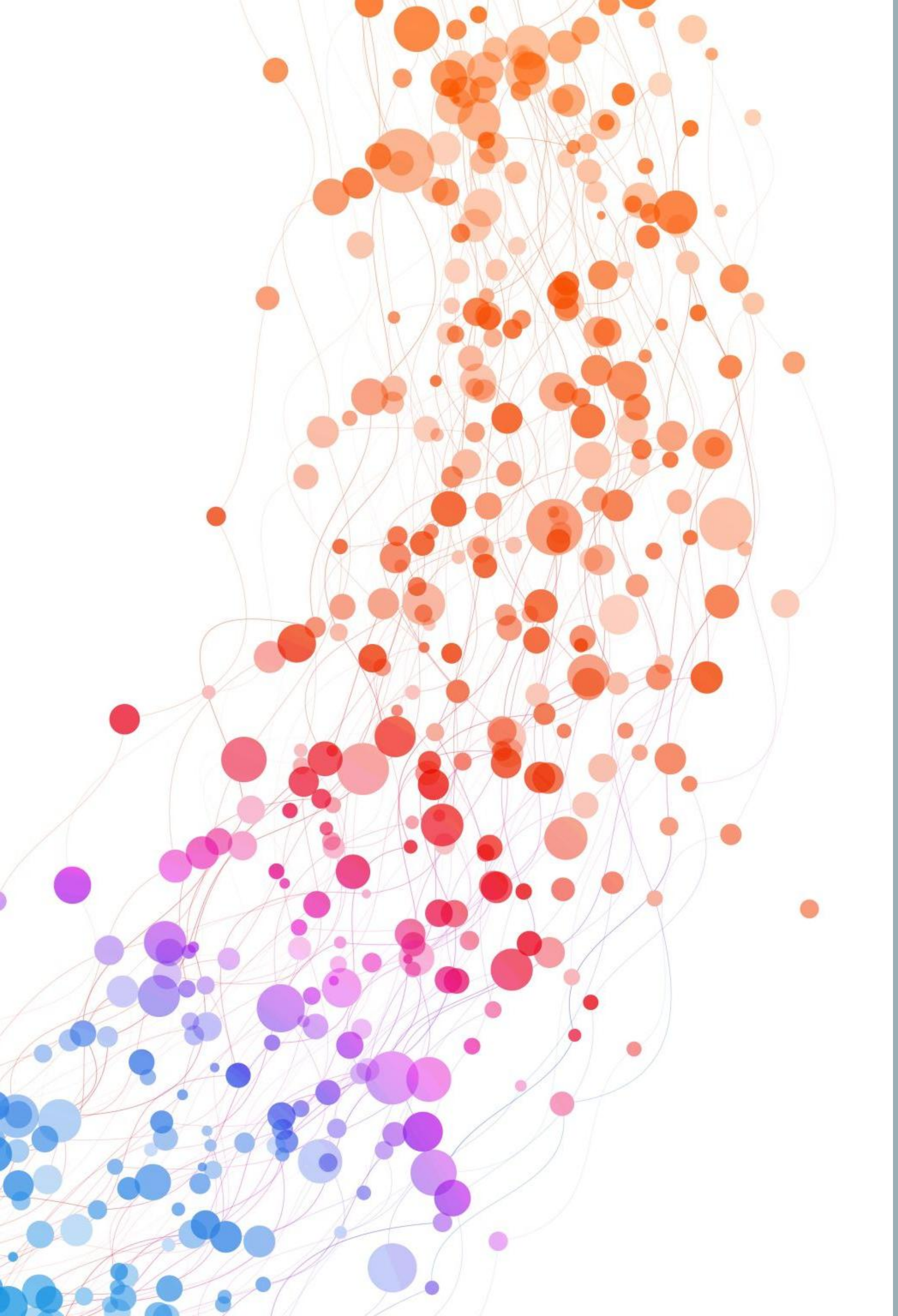

BUSINESS ESSENTIALS FOR A STARTUP PART II

FINANCES - BASICS

Top Tips:

- Open a business bank account to separate your business and personal finances.
  - Many banks offer two years' free banking, so shop around.
- Keep/save accurate records • bank statements • cashbooks • sales • hire purchases • invoices and receipts • mileage • money taken out of the business for personal use etc.
- The tax system is complex so make sure that you keep records of any money that enters or leaves your business.
  - Tax and National Insurance (NI) are both collected as part of your self-assessment tax return, which is completed in January, tax year April to April.
- All taxes and NI must be paid, even if you make a loss.
  - Tax relief is available by setting the loss against: • other income from the same or previous year • profit in subsequent years • profit in the previous three years.

INITIAL COSTS
FINANCIAL VIABILITY

- Estimate how much money you're going to spend setting up a business.
- Aim to keep your initial outlay low, and think about all costs:
  - income tax and National Insurance (NI)
  - legal and financial advice
  - marketing materials
  - premises, licenses, insurance and business rates
  - stationery, stock etc.

Think about your pricing strategy.

- Estimate your outgoings
  - Variable costs
  - Fixed costs
  - Estimate your annual sales volumes over that period.
- You can then deduct your outgoings to predict your initial profits.

CORPORATE ADMINISTRATION CONSIDERATIONS

STAY ON THE RIGHT SIDE OF THE LAW

IT and Finance Systems;

Including website, payroll, register for VAT, purchase licenses for software packages.

Register as an employer for PAYE (Pay As You Earn) and NIC (National Insurance Contributions) via HM Revenue and Customs Website.

https://www.gov.uk/government/organisations/hm-revenue-customs

Human Resources (HR):

Employment legislation and health and safety legislation.

As a director you can be held personally liable for any H&S breaches.

https://www.acas.org.uk/

Insurance:

Employers' liability insurance is compulsory for any business. You may also want to protect your assets or other liabilities.

https://www.gov.uk/employers-liability-insurance

Secure Necessary Permits and Licenses:

Identify and obtain the required permits and licenses for your business. This varies based on your industry, location, and the nature of your operations.

https://www.gov.uk/find-licences

UPON STARTING ANY FINANCIAL ACTIVITY

- Open business bank account (All major banks: https://www.business.hsbc.uk/en-gb)
- Get business insurance (All major insurance providers: https://www.axa.co.uk/businessinsurance)
- If employing staff: Register in PAYE
- Register with the pensions regulator: https://www.thepensionsregulator.gov.uk
- Bookkeeping (online tools excellent: https://www.xero.com/uk/accounting-software/all-features/)

FINANCIAL TERMS

CONSIDER HIRING AN ACCOUNTANT OR USING ACCOUNTING SOFTWARE TO MAINTAIN ACCURATE FINANCIAL RECORDS.

Sales forecast:.

Expected sales volumes, the mixture of products and of customers, timings, your market and its value.

This will have an impact on your costs including production, marketing, storage and distribution, wages, selling costs, financing costs and taxes.

Profit and loss accounts (money in and money out):

When looking forward, these figures will represent a budgeted or predicted set of figures to compare progress against.

When looking backward, they provide a historical record of actual income and expenditure.

Cashflow statement:

It is a record of, and forecast for, what is expected to be paid and received each month.

It is used to assess the risk of insolvency and if any change of plan is required, or you need to raise funds.

If the forecast shows you will run out of funds, you are potentially 'prospectively insolvent', there are laws that limit trading in such cases. This is partly why they say 'cash is king', as it has such a significant impact on your decisions.

Balance sheet:

Offers a snapshot in time, identifying the health of the company, any assets and any liabilities that exist at that time.

FINANCING AND FUNDING:
DETERMINE HOW YOU'LL FINANCE YOUR BUSINESS.

Your savings: Here, you invest/live off your own funds until you secure customers

Consulting/side jobs: Consultancy can be a great way to bring in funds while your company grows. Watch out that it doesn't absorb too much of your time, while your main innovation gathers dust in the corner.

Research grants: University research route**.** Well targeted research grants can answer some questions in the early stages of your journey and you should seek to make best use of the research funding that is available to universities. They are often essential to getting started, and don't dilute your equity, so they're a great source of funding for as long as the work intended fits their remit.

Proof of concept grants (PoC): The first step away from pure research towards commercialisation,, enables you to explore if it is technically viable or not. These grants fund initial feasibility studies, basic prototyping and IP protection.

Commercialisation grants: These grants focus on how to commercialise the innovation and product development. Even as a beginner, if you demonstrate good theoretical commercial knowledge and a genuine desire to learn, you can do well here.

Sales: Selling directly to customers. Gives the benefit of an income unaffected by the repayment of debt and equity financing.

Banks and other financial institutions:

- **Overdrafts** will be negotiated based on cashflow forecasts. These are a flexible (but generally quite expensive) way of covering short-term fluctuations in finance caused by the misalignment of timings with cash coming in and out of the business.
- **Loans** will be given for a set period, with a fixed or variable interest rate. Note that any lender may look to secure their loan against assets including your home. It's best to use these only to fund specific substantial purchases, such as premises or equally large investments.

External grants and loans: A variety of government- and charity-funded awards are available in the UK.

- **Start Up Loan** This government-backed scheme provides loans of up to £25,000 for 16-30-year-old entrepreneurs.
- **Royal Academy of Engineering Grants:** Green Future Fellowships £3 million
- **Government Grants**: Searching for all grants, 108 results - Find a grant
- **Innovate UK:** Innovate UK - grant funding, innovation loans and expert support - GOV.UK

Investors

Business Angels: Angels are successful, wealthy individuals who finance start-up businesses. They generally invest in early-stage ventures (e.g. preseed and seed) in exchange for equity.

There are several angel groups around the UK, and these can be very useful for small funding requirements in the £50-£300,000 range.

The UK Business Angel Association maintains a directory of angel groups that you can access. https://ukbaa.org.uk/

Private Equity Companies: Larger investment organisations.

Crowdfunding: Crowdfunding enables fundraising by pooling small investments (or payments for future products) from a large number of individuals.

Typically, the crowdfunding platform becomes a single named investor representing all the minor investors.

Venture capital: Venture capitalists are professional firms specialised in providing 'risk' finance. Many VCs are only interested in businesses that can grow to revenues of £100 million upwards

FINANCING

- InnovateUK: https://apply-for-innovation-funding.service.gov.uk/competition/search
- West of England Combined Authority etc: https://www.westofengland-ca.gov.uk/growth-hub/financial-business-support/
- Business Accelerators/Incubators, eg: SetSquared (https://www.setsquared.co.uk/)
- Private Investment Funds (usually through incubators or personal contacts)

FORM YOUR TEAM

BUILD A TEAM YOU CAN TRUST
START YOUR INCLUSIVE CULTURE FROM DAY ONE

- Typically, you start off by recruiting immediate peers/colleagues to assist in the early stages.
- Investors may have concerns when they see a team of people with identical skillsets and backgrounds.
- Diversify your team with a broad set of complementary skills, looking beyond your immediate set of colleagues/peers.
- All stakeholders (and particularly investors) will expect to see your business led by a team with evidenced, relevant management experience in areas such as finance, marketing, sales and people management, ideally with previous startup experience.
- In the early stages it may make financial sense to use contractors to help with specific tasks.
- Clearly define roles and responsibilities to ensure a smooth workflow and a positive work environment
- Important to make sure that selections are made for the right reasons.

ESTABLISH VENDOR AND SUPPLIER RELATIONSHIPS

- Develop relationships with reliable vendors and suppliers.
- Negotiate favourable terms and secure agreements to ensure a consistent and cost-effective supply chain
- Assess if your supplier business model and socially accountability aligns to your company culture/values.

GO-TO MARKET STRATEGY

YOU NEED A 'GO TO MARKET STRATEGY'

A PLAN TO ACQUIRE CUSTOMERS.

Launch and Marketing Strategy

- Create an effective logo and company name
- Implement a comprehensive marketing strategy to attract customers.
- Execute a well-planned launch

Build a Strong Online Presence

- Establish a professional and compelling online presence, including a business website and social media profiles.
- Utilise various channels, such as social media, content marketing, and partnerships, to promote your business effectively
- Leverage digital marketing to reach your target audience and create brand awareness.

CASE STUDY ANALYSE STARTUP'S JOURNEY

- **Discuss case study in groups**
- **One person to feedback summary, 2-3 minutes**

- In your group, pick one company and look it up. Discuss:

- Who founded it, and what problem were they originally trying to solve?
- What obstacles or early challenges did the founders face?
- Has the company changed direction or evolved from its original idea? How?
- What was innovative or unusually creative about their approach (product, financing, branding, or scaling)?
- What is one standout insight you've discovered that the rest of the group might not know?