



## **Guidance for Graduates and Students thinking of starting their own business.**

### **Introduction**

There is a considerable amount of information and guidance available for people who want to start their own business, including some specially targeted at young people, and much of it is free.

It should be stressed that starting a new business is not easy and, indeed, many young graduates who start their own businesses exit those businesses within the first four years of trading albeit with their skills and commercial knowledge much enhanced.

It is difficult to generalise on the personality traits of the potential entrepreneur or successful business person (and not all successful businesses are run by stereotypical entrepreneurs) but there are a number of personal attributes commonly associated with an enterprising person who might want start their own business. These include:

- The desire for achievement
- The desire for autonomy
- Having a creative tendency or the ability to innovate
- Having the appetite to take a calculated risk
- Possessing drive, determination and the willingness to work hard

Some graduates do start their own businesses straight after gaining their degree but many more wait for a few years before doing so, if for no other reason than a key factor in gaining funding support for most new ventures is the experience and knowledge that the applicant has of the particular business or sector.

You might, therefore, have the germ of a good idea but decide that, in the first instance, you would have more chance of eventual success by gaining the necessary

experience, including building up your network of contacts, by working in an established business before you start your own venture.

That good business idea might be a new product or service or an enhancement to an existing one, it might be an original idea or solution to an everyday problem but it could also be:

- A gap in a particular market.
- A business related to your degree or the work you currently do.
- Or an interest or hobby that can be turned into a business.

You have to make sure that your idea fits with your own skills and personal circumstances and that it is, potentially, a viable business proposition:-

- Bounce your initial thoughts off others, including family, friends and professional advisers and refine your plans as you speak to people.
- May be 'test the market' by showing these people a sample of your product or by doing a 'trial' piece of work for someone.
- If there are businesses doing the same or a similar thing study their operations closely and work out what your competitive advantage might be.
- Think in broad terms who your target market will be and how you would sell to that market.
- Consider what equipment you will need and where you might trade from?
- Begin to read the business press to ensure that you are aware of market trends and financial matters.
- As you start to explore these issues you should be starting to consider what financial requirements the business would have and you should also think about your own personal financial position and its impact on the business.

Considering these issues is the start of developing a comprehensive Business Plan and a plan that includes full financial projections will almost certainly be a prerequisite of the start up process if you wish to borrow money to buy assets or to fund the working capital of the business.

However, even in the early stages of thinking about your business idea, the discipline of starting to write an outline Business Plan, even one without detailed financial projections, will prove invaluable in helping you both to formulate your strategy and then in discussing your initial plans with people such as business advisers and banks.

You might consider testing your ideas through a new software package called **Venture Navigator** ([www.venturenavigator.co.uk](http://www.venturenavigator.co.uk)) that has been developed by 7 leading UK universities, which include the University of Liverpool.

The system provides a free, easy to use, objective analysis of business viability online and points the user towards resources both web based and physical that can offer support and relevant solutions.

## The Business Plan

Most business advisers will offer Business Plan templates and there are some excellent online resources provided by the major banks (see below) but the essential areas that require consideration are detailed on Page 7 of this paper.

## Business Advisors/Agencies

The following are some of the main advisory agencies on Merseyside/Regionally/Nationally. Please note this list is not exhaustive:

### Merseyside/North West Agencies

**Business Link Northwest** – Tel 0845 0066888 [www.businesslink.gov.uk/northwest](http://www.businesslink.gov.uk/northwest)

- **Business Link is probably the first point of call for most start ups. Provides general advice on business start-ups and offers sign posting service to other agencies, to Banks and other funders, including grant aid.**

Business Link Northwest's offices are at:

City Office Park  
Bluebell Way  
Preston  
Lancs PR2 5PZ

- Via BL it is possible to obtain discounted professional assistance for preparation of Business Plans and Financial projections.
- The web site has advice on business plans, protecting your ideas, forming a business plus a FAQ section and a Test for Potential Entrepreneurs.

**Blue Orchid** - 0151 284 7728 – [www.theblueorchid.co.uk](http://www.theblueorchid.co.uk)

- An accredited provider of business support and consultancy that delivers professional services for start ups and SMEs and offers ESF funded programmes and training events.

**Creativebias** - 0151 707 4550 – [www.creativebias.org](http://www.creativebias.org)

- Business Start-Up support for the creative industries on Merseyside

**Digitalinc** – 0151 907 2929 – [www.digitalinc.org.uk](http://www.digitalinc.org.uk)

- A business incubator focused on the digital industry sector. Offers marketing/business development support, technical advice, prototype development, technical mentoring and internal networking as well as workshop accommodation.

**Liverpool Science Park (LSP)** – 0151 705 3400 – [www.liverpoolsciencepark.co.uk](http://www.liverpoolsciencepark.co.uk)

- LSP offers high spec lab-compatible office space for science and knowledge based companies. The offer includes a basic 'virtual' office facility for £50 pm plus flexible leasing structures on a range of labs/offices, the ability to expand, meeting room facilities and a range of business support services.

**Merseybio** – 0151 795 4100 – [www.merseybio.com](http://www.merseybio.com)

- Offers an incubator service for life sciences sector that includes start up support, technical and commercialisation support and networking.

**Merseyside Special Investment Fund (MSIF)** – 0151 236 4040 – [www.msif.co.uk](http://www.msif.co.uk)

- Offers funding, via a Small Loans Fund (£15k to £150,000 but up to maximum of 50% of any funding requirement), to commercially viable businesses including Start Ups) based in or prepared to relocate to Merseyside. Web site has useful business start up and guidance information.

**Northwest Development Agency – Finance for Business** – [www.nwdabusinessfinance.co.uk/](http://www.nwdabusinessfinance.co.uk/)

- Offers a range finance options, including small loans of £3k - £50k for new and growing businesses INCLUDES charities and social enterprises and also loans of £50k - £250k to established, innovative, SMEs.
- Also offers business angel introductions, venture capital (£50k to £1m) and grants that are largely for R&D and reduction of CO2 emissions projects.

**Striding Out** – 0870 1126 559 [www.stridingout.co.uk](http://www.stridingout.co.uk)

- A Liverpool based organisation that offers 1-2-1 Business Coaching and support, and advice on business planning and funding.
- Organises networking events and informational programmes to help budding entrepreneurs

**Train 2000** – 0151 236 6601 – [www.train2000.org.uk](http://www.train2000.org.uk)

- An agency that has been specifically set up help female entrepreneurs. Offers access to the Power Loan Fund only for female entrepreneurs.
- Offers a range of support including:
  - 1 to 1 mentoring by a Business Advice Team (most of whom have set up their own businesses in the past)
  - A series of workshops (day or evening sessions),
  - Practical guide books
- The Power Fund will lend a maximum of £15,000, to suitable new businesses. Usually lends when matched funding is provided from another source but, very occasionally, can be sole lender when other sources not prepared to fund.

### Some National Organisations

**Angels Den** - [www.angelsden.co.uk](http://www.angelsden.co.uk)

- Website that offers advice for those seeking funding including access to panel of 'Business Angels' (personal investors).
- Entrepreneurs can post summary business plan on the site, for fee of £99 and hope that Angels will be interested to take matters further. Have 2200 Angels registered and 100 entrepreneurs who have registered business summaries.

**Enterprise UK (Formerly Make Your Mark) – [www.enterpriseuk.org](http://www.enterpriseuk.org)**

- Provides online resources for young people wanting to start their own businesses including social enterprises. Website has good sections on business planning with useful links to other sites.
- Also offers a range of events including networking meetings

**Flying Start – [www.flyingstartonline.com](http://www.flyingstartonline.com)**

- Offer a range of business support programmes at locations in the North West including University of Liverpool.

**HM Revenue and Customs – 0151 242 8380 – [www.hmrc.gov.uk/bst](http://www.hmrc.gov.uk/bst)**

- Offers advice about all aspects of Tax, NHI, VAT, Record Keeping and Payments for the Self Employed – Also Self Assessment for the self-employed
- Run a series of workshops through Merseyside on the above matters.

**Institute of Chartered Accounts England & Wales (ICAEW) – [www.icaew.co.uk](http://www.icaew.co.uk)**

- The ICAEW publish several briefings covering core business subjects including 'start up' issues.
- They can be down loaded from Technical and Business Topics area of the site (SME section) free of charge.

**J4B – [www.i4bgrants.co.uk](http://www.i4bgrants.co.uk)**

- Offer searchable data base for grants, free for basic service.

**National Council for Graduate Entrepreneurship – [www.ncge.org.uk](http://www.ncge.org.uk)**

- Provide on-line support and programme of workshops for those graduates considering running their own business.

**Princes Trust – 0800 842 842 – [www.princes-trust.org](http://www.princes-trust.org)**

- Assist young people (18 – 30), by the provision of mentoring support, financial grants up to £1,500 and loans of up to £4,500 (but usually lower).
- Have to have been unemployed for 6 months or working less than 16 hours per week and unable to get full funding from other sources.

**Shell LiveWire – 0845 757 3252 – [www.shell-livewire.org](http://www.shell-livewire.org)**

- Offers support to young people aged 16 – 30 by mentors.
- Provides 'Start a Business Tool Kit', which covers Market Research, Writing your first business plan, a CD Rom specific to your business idea and an introduction to the local Livewire Coordinator.
- Site also has useful guidance on whether you have the skills to be an entrepreneur, finance and business planning and general business topics.

**TNG Business Support** – 020 8367 0647 - [www.tng.uk.com](http://www.tng.uk.com)

- Offer training for self-employment, access to finance and on going support and guidance to the unemployed who have been in receipt of Job Seekers Allowance for 6 months.
- Has an excellent link to Government, Local Government, Educational and International organisations and to Careers Job Websites

### Bank Websites

- All the major banks offer free Start Up advice and guidance via their web sites, including business plan advice.
- The HSBC web site is particularly easy to navigate with sections on:

Starting a Business	Sales and Marketing
Finance	Premises
HR	Purchasing
Import and Export	Strategy
Insurance	Tax
Computing and IT	Trade and Sector Information on:
Law	Manufacturing, Office Services, IT
	Retail, Building and Other

### Bank Web Addresses:

- Barclays** - 0800 515642 - [www.business.barclays.co.uk](http://www.business.barclays.co.uk)  
Offer Start up Guides and Seminars, Business Software, Meeting with Small Business Manager
- HBOS** - 0845 300 1956 - [www.bankofscotland.co.uk](http://www.bankofscotland.co.uk)  
Offer 30 free Online Guides
- HSBC** - 0800 731 8904 - [www.hsbc.co.uk](http://www.hsbc.co.uk)  
See note above
- Lloyds-TSB** - 0800 056 0056 – [www.Lloydstsbbusiness.com](http://www.Lloydstsbbusiness.com)  
Offer free consultation with local manager and free business software
- Natwest** - 0800 404 7871 - [www.natwest.com](http://www.natwest.com)  
Offer Online Guides under headings Business Planning, Cash Flow, Finance, Risk Management, Sales and Marketing and Personal Development

## Outline of Typical Business Plan

1	<b>Executive Summary</b> <b><u>(The overview section, to be completed in brief)</u></b>	<ul style="list-style-type: none"> <li>• Say who you are, your qualifications and what you do or propose to do</li> <li>• Give detail of other members of management team</li> <li>• Summarise how you will operate and why there is a market for your product/service</li> <li>• Summarise your current financial position.</li> <li>• Outline finance needs in terms of asset finance and working capital needs</li> <li>• If you can, provide summary of at least 2 years forecast Profit and Loss Accounts, Balance Sheets and Cash flows</li> </ul>
2	<b>Business Description and Background</b>	<ul style="list-style-type: none"> <li>• Give history of the business to date</li> <li>• Current or proposed legal status</li> <li>• Business aims</li> <li>• Details of key personnel, their experience in the trade or industry and/or professional qualifications</li> </ul>
3	<b>Product or Service Detail</b>	<ul style="list-style-type: none"> <li>• Provide details of the product or service that the business will supply</li> <li>• What makes your product or service better than the competition?</li> </ul>
4	<b>Market Strategy/Analysis</b>	<ul style="list-style-type: none"> <li>• What specific market are you aiming for?</li> <li>• Provide details of any major customers or target customers</li> <li>• How will you price your product or service?</li> <li>• Who are your competitors?</li> </ul>
5	<b>Operational Requirements</b>	<ul style="list-style-type: none"> <li>• Detail how the product will be made or the service provided</li> <li>• What premises, equipment and staff will be needed?</li> </ul>
6	<b>Detailed Financial Information</b>	<ul style="list-style-type: none"> <li>• Monthly profit and loss accounts, balance sheets and cash flows are usually required for 2/3 years</li> <li>• Detail the assumptions used to prepare the forecast</li> <li>• You may need specialist help to complete this section</li> <li>• Even if you do receive help with this section it is essential that you fully understand how the plan/projections were prepared</li> <li>• If you need to borrow money, when preparing the plan, you should assume that the funding has been provided so that costs and repayments can be brought into the plan</li> </ul>
7	<b>Risk (SWOT) Evaluation</b>	<ul style="list-style-type: none"> <li>• Outline the strengths and weaknesses or the business and what risks and threats there might be to the business and how you might overcome them or mitigate against them</li> </ul>

## Some Background Notes on some of the Financial Aspects of Business Planning.

**N.B. These notes are not exhaustive and only give some idea of basic concepts. You should seek professional advice if you are not experienced in this field.**

1. **Revenue** – Sales are the hardest of all items in a business plan to forecast. Invariably sales grow slower than anticipated and contracts with potential customers take longer to negotiate than expected. This is especially true with major companies such as supermarkets, who have to undertake product testing for issues such as Health and Safety or often want to trial a product in one or two stores before a partial or major launch. You should try to plan on the basis of best case, likely estimate and worst case scenarios in terms of sales.  
Do not forget the effects of seasonality on your forecasts.
2. **Costs** - Costs should be divided into Cost of Sales and Fixed Costs. Cost of sales or direct costs include bought in products, materials, manufacturing labour and manufacturing costs. These costs tend to vary in line with the rate of sales or production.  
Fixed costs include items such as sales and office salaries and proprietor's salaries, rent and rates, insurance, office expenses including heat and light, finance costs plus depreciation of fixed assets (see below). These costs tend to be the same whatever the rate of activity and many have to be paid at fixed dates with limited or no credit terms available.
3. **Pre Tax Profit** - Profit in any period is Sales less cost of sales, less fixed costs for the period. Tax is payable on annual profits.
4. **Breakeven** - A key planning figure that interests investors and banks is the 'breakeven' sales position of a business. This is found by taking the gross margin (Sales less cost of sales as a % of sales) and calculating the amount of gross profit needed to meet all fixed costs and, thereby, the resultant sales needed for breakeven, as below:

Forecast Sales	50,000
Cost of Sales	<u>30,000</u>
Gross Profit	20,000 = 40% Gross Margin
Fixed Costs	<u>12,500</u>
Profit before Tax	7,500

Sales breakeven will be achieved when 40% of sales equal 12500

$$\text{or } \frac{12500 \times 100}{40} = 31,250$$

Thus the breakeven sales figure would represent 62.5% of the forecast sales  
In the above example the **Gross Margin** is 40%, but, if all the cost of sales was represented by a bought in product, then the **Mark Up** would be 66.6%.

5. **Loan Repayments** - Loan repayments are not part of fixed costs, only any arrangement fee for the loan and the interest costs of the loan are part of the fixed costs. Repayments have to be made from cash flow, which is retained profit plus depreciation. Depreciation is a notional charge made to fixed costs to write off an asset (such as a car or piece of equipment) over its useful life.
6. **Depreciation** - There are different methods of calculating depreciation but the simplest used is to write off the cost, over equal amounts, over a number of years, e.g. a car costing £10,000 might be written off at £2,000 per annum over 5 years. This £2,000, although a charge against profit as a fixed cost, does not physically 'leave the business' hence its write back for cash flow purposes.
7. **Cash Flow** - To calculate cash flow one has to estimate when sales revenue will be received, when the cost of sales will need to be paid for and when fixed cost will be paid. In a retail business sales might be for cash and, therefore received straight away but, in a service or manufacturing business, customers usually expect 1 or 2 months credit and often they take up to 3 months to pay, and it might not be possible for a new business to get the same credit period from suppliers.  
Wages and, indeed, most fixed costs are payable virtually immediately although there are set rules laid down that govern payment of VAT (if the business is liable for VAT) and PAYE/NHI contributions. When drawing up a cash flow forecast is it usual to assume the worst scenario for Sales and Cost of Sales and to assume fixed costs are paid in the month incurred.

**Calculating the cash flow for a business is usually the most critical aspect of business planning.**

8. **Cost and Pricing** - Costing and Pricing is a complicated area but if you are selling a product there is often a price that the market will stand for that product and you must therefore ensure that your costs, both direct and fixed, can be met from the sales revenue generated allowing for any planned sales build up period. Generally, if you set out to undercut the opposition, you must make sure you are operating with a lower cost base.

If you are selling a service you are effectively selling your time, or the time of the people delivering the service. If your calculated charge out rate per hour is higher than the market will pay you have to reduce your costs to compete.

A simple example of a service charge per hour might be for a young IT Web Designer working on his own.

His annual fixed costs might be:

Motor Expenses	2000	Depreciation	2000
Rent/Rates	5000	Insurance	1250
Bank Charges	200	Heat Light	400
Telephone	500	Sundry	300
		Target Salary	30,000
		Target Surplus	<u>5,000</u>
		Total	46,650

The charge out rate would be based on the number of hours the consultant would hope to sell per year but for some of the time he would be researching for new clients, travelling, doing administration and he may also be on holiday for say 4 weeks etc.

Thus he would not be able to sell 365 days x 8 hours per day but more likely he would have chargeable hours of only say:

$$48 \text{ weeks} \times 35 \text{ hours} \times 70\% = 1176 \text{ hours.}$$

So £46,650 would have to be recovered over 1176 hours or at a charge out rate of, say £40 per hour. If the charge out rate could not be realised in the market place the consultant operated in then the plan of having a salary of £30,000, plus a surplus of £5,000, might need to be reconsidered. If these two items were to be reduced to £25,000, in total, then the charge rate could be reduced to £31.20 per hour

9. **Full and Marginal Costing** - The above is a very simple example of full costing. All the costs of the business have been added together and a charge rate calculated that will, if the business can sell 1176 hours in a year, or say 24.5 hours per week, generate £46,650 per year.

However to recover the fixed costs of the business, £46,650 less the salary and hoped for surplus, would require only £11,650 to be generated across 1176 hours at say £10 per hour.

Thus, if the designer knew he had a major piece of work starting in two weeks time, but nothing else to do before then, he could take work at below the price of £40 per hour, knowing that anything above £10 per hour would be covering his fixed costs and making some contribution to his salary albeit not at his hoped for or anticipated rate. This would be called marginal costing or rather marginal pricing.

10. **Funding/Gearing** – When seeking funding for a business most lenders wish to see the proprietor inject a reasonable amount of their own money into the business. The traditional ratio used to be a £1 of proprietor's money for £1 borrowed from banks or finance houses. This would give gearing of 100%. In many small businesses, where assets such as plant are financed by HP, the gearing ratio might be higher but all funders like the comfort of knowing that a proprietor has some of his/her own money in a business as this effectively ties him/her to the businesses if things start to get difficult.

It is usual for capital equipment e.g. Cars, Plant and Machinery, Premises etc. to be financed by long term debt such as HP, Bank Loan, or Mortgage finance leaving funding for day to day purposes (working capital) to be provided by bank overdraft or debtor finance.

Increasingly, assets are leased not purchased and overdrafts are being replaced by debtor finance. Debtor finance takes place when finance or factoring company buys a company's debtor book and advances a proportion of the total book (up to 70 or 80%) to the business before the debt is paid.

The proportion of the advance, or whether an advance will be made, depends on the nature of the trade, the track record of the business and the credit standing of the debtor.

11. **The Balance Sheet** – The Balance Sheet shows the assets and liabilities of a business on any given date. Assets would include items such as cash, stock, money owed by customers, plant and equipment, cars and property. Liabilities including amounts owed to suppliers, utilities, to VAT, to the Inland Revenue, Banks, HP Companies and under Mortgages etc. plus any amounts owed to the proprietor or introduced as capital.

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