A close-up photograph of a hand placing a small, bright orange paper boat onto a body of water. The boat is simple in design, with a pointed front and a flat top. The water is dark blue with gentle ripples. The hand is positioned at the top right of the frame, with fingers gently holding the boat. The background is a soft-focus view of the water's surface. The overall mood is calm and focused, symbolizing the start of a small business venture.

small
Mind Your Own Business

**SETTING UP A
BUSINESS**

Step by step workbook

MIND YOUR OWN BUSINESS

This is a practical guide to setting up a small business or social enterprise.

This workbook includes finding and refining a business idea, and testing whether the business idea is likely to work out financially. It is written as simply as possible for the widest readership. However, the content is suitable for any level of education and context.

Using this guide

Setting up a business is best done with the support of others. So while this guide can be used by individuals, you are more likely to enjoy the experience and keep going if you work through it with a small group. This might be a couple of friends around a kitchen table, or a more formal course in a community hall.

Part 1 gives an introduction to the value of setting up a business and aims to help you think about your skills and what you want to do.

Part 2 is the core course on setting up at business. What business is right for you? Will it succeed? Each session includes information, a topic for discussion, action to be completed and some case studies.

Part 3 gives further practical help when you are running the business.

Supporting material including a business plan and cash flow template, and guidance on using this material with a group is available at www.mindyourownbusiness.uk

✝ Biblical principles

Some biblical references and concepts have been included in marked sections, because we believe they are helpful in thinking about the principles that underpin a successful and ethical business. Of course, ethical principles are not unique to Christianity, and we hope that those of other faiths and none will empathise with the wisdom contained in these spiritual reflections and find them of use in planning their enterprise.

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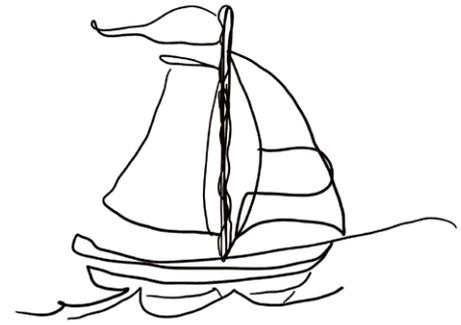
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PART 1: LIFE GIVING DESIGN

1.1 Wealth and well-being

Enterprise is essential for human flourishing and the only sustainable solution to poverty. A key purpose of entrepreneurial activity is to create wealth, a word that comes from an old English word meaning well-being. So business is about enabling personal and social well-being.

Long term business success comes from providing something customers want, in a way that is better, cheaper, faster, or nicer than their competitors. In the process, businesses create jobs, develop skills in their staff and build self-esteem. They also help the wider economy adjust to changing needs, taking risks and organising resources efficiently.



Some people are suspicious of business and entrepreneurs. TV programmes like *The Apprentice* portray greed and individualism. Business has its share of people corrupted by greed, but most of those starting small business are motivated by the freedom and greater control that comes from being an entrepreneur rather than money.

Turning the tide

Some go much further. Social entrepreneurs can use resources to benefit local communities, bring social reform, model justice and equality, directly and intentionally tackle poverty and even support peace by bringing hope and rebuilding relationships across conflict divides.

The principle of loving your neighbour and standing alongside the least fortunate in society is not unique to Christianity but this world view has transformed many nations.

In the UK, many Victorian Christian industrialists who followed twin goals of commercial success and social responsibility. George Cadbury, Titus Salt, William Lever and Jeremiah and Caroline Coleman used their businesses to improve the living conditions for their workers. Their innovations included better housing, education, sickness insurance, welfare payments, profit sharing and pensions. More recently, businesses such as The Entertainer toy retailer, Mitchell Motors, Rooflight and Cygnet Group model staff and family friendly policies and have been remarkably successful.

In Norway, despite opposition and imprisonment, Hans Nielson Hauge was central to the transformation of the country from the poorest in Europe to the richest per capita on earth. In Geneva, John Calvin began a movement that transformed the city from being known as “the smelliest in Europe” with immorality, poverty and alcoholism, to a wealthy city and the base for the International Red Cross and many other humanitarian organisations. In a similar way, William Carey in India, Abraham Kuyper in the Netherlands, and William Merrell Vories in Japan, all changed nations.

CASE STUDY: Impact Investment

A new “asset class”, known as “Impact Investment” enables investors to support “Triple Bottom Line” businesses that are financially sustainable and also have a social and environmental goals.

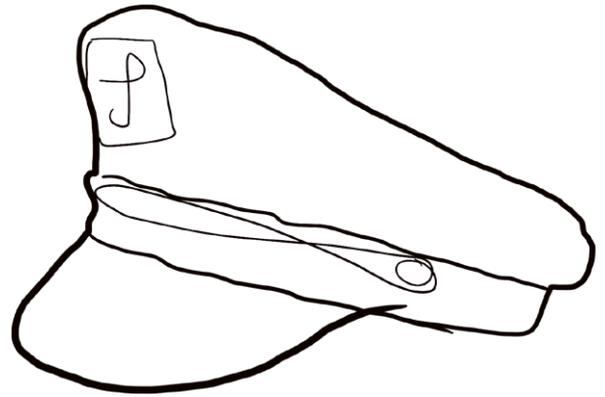
Kuzuko Game Reserve and lodges combines conservation, job creation and social transformation in a region of South Africa with a 70% unemployment rate. The land was restored and re-stocked in conjunction with South African National Parks. Most employees had not been in permanent employment before. Food and craft for the shop are sourced locally. Pay is above the minimum wage, high quality staff housing was built and staff receive a profit share and life and unemployment insurance. Child care is offered and a school is supported. Training is provided as well as guidance on life skills.

Transcend is a technology business in Palestine that I co-founded to create jobs based on service exports unaffected by movement restrictions, developing skills, modelling integrity and gender equality, and transcending the divide, serving clients in Israel, Palestine and beyond. Currently there are over 130 staff with plans to grow to 1000.

1.2 Captain of your ship

Do you have any life goals? What does a good life well lived look like to you? Goals might be around marriage, children, money, purpose, adventure.

These goals should shape the type of enterprise you want to start. Do you want the flexibility that can come from self-employment? Or generate some income from a hobby you enjoy? Or have an income that enables you to do something else? Or set up a business you can sell in order to gain financial independence or retire? Or create jobs for others? Or meet particular social or environmental needs?



Be clear and honest with yourself on what you want and where you want to be in five or ten years time.

Do you have sea legs?

Having or finding your sea legs is about the ability to walk steadily on the deck of a ship, especially in rough seas. Do you have what it takes to set up and run a small business even when the conditions are rough?

Some people are born entrepreneurs. But most people are capable of running a business, especially if they know where they are weak so others can support them.

The three fundamental abilities entrepreneurs need are:

- The ability to spot opportunities – to see what might make life better for some or how a product or service could be improved
- The ability to evaluate different opportunities and therefore know which ones are most likely to be successful for you
- The willingness to stick at an idea for long enough to make it succeed.

You don't necessarily need all three: you could work with someone else who has the vision, and you could make it reality. The material in this programme will help you evaluate ideas. And if you are going to move on to the next thing, bring someone in to operate the business at the right point.

The variety of types of enterprise means that most people can find a business that suits their personality, circumstances and willingness to take risks.

Qualities needed

Setting up a business requires:

- Hard work
- Able to think, reflect and learn from mistakes
- Patience
- Able to live with uncertainty
- Willingness to take risks
- Ability to get on with others
- Able to control own emotions
- At least basic numeracy
- Stickability.

The best piece of advice I've been given was "Do one audacious new thing every year". One thing that pushes you out of your comfort zone. The most common reflection of older people is that they wished they had taken more risks. You can do it!

CASE STUDY: The right business at the right time

The first business I personally set up was a marketing consultancy. The aim was to come off unemployment benefit. The upfront cost was small. There was little to lose. However, a consultancy has little or no resale value.

So later, when the consultancy was going well with a partner and contractors, a further business was set up selling market research devices. The aim was to create something of value to sell, to generate a personal pension and investment pot. My partner and I worked half time in the consultancy and drew no income from the new business for over two years. Eventually the business became viable, a successful sales director was brought in to be CEO and given a third of the shares, and in time I sold my shares back to the company, meeting the original financial goal.

Some of these funds were then used to found the Impact Investment business Transcend, mentioned earlier.

PART 2: PASSAGE PLANNING

Have fun, make money

Anyone can start and run a business, if they are willing to work at it. It can be fun and satisfying, helping other people and generating an income.

Setting up a business is mainly – but not entirely - common sense. Training will help you avoid expensive mistakes and be more successful.

This training programme gives a practical step-by-step approach to setting up a successful small business or social enterprise. It's written by people who have done it themselves.



How to use this section

This section can be followed by individuals but is best done as a small group.

Each session includes information on the session topic to read. Occasional case studies help to show how the theory can be applied. There are also “DISCUSS” sections to talk through as a group or reflect on individually.

Finally, there are “ACTION” sections to work on during the session or as homework. It is important that you write down your conclusions from these sections in a notebook. Your notes will be key to writing up a short business plan.

See mindyourownbusiness.uk for further resources including business plan and cash flow templates.

Preparation

When I see a boat I want to jump in, hoist the sails and see where the wind and waves will take me.

Sometimes we see a business idea that so excites us we want to get going right away.

However, before we get under way we need to ask some important questions. Will that beautiful looking boat sink in a storm? Do we need help to launch it and sail it? What's the destination? Will the weather stay fine? How can we best use the prevailing wind and tidal currents? What could go wrong and what do we need to avoid disaster? What will it all cost and can we afford it?

I have sailed through storms, coped with engines on fire and skippered a sinking yacht across the English Channel. The survival of crew and craft was not by chance but through careful preparation, called “passage planning”.

Careful preparation is also essential for the survival and success of a new business.

2.1 What business should you start?

All shapes and sizes

A business or enterprise comes in many different shapes and sizes:

- A part time hobby which also generates some income
- Selling your skills and time to lots of people rather than one employer, say as gardener, coach or IT advisor
- An enterprise that sets out from the beginning to be a substantial business that employs others, probably working with investors and / or partners
- A social enterprise, which focuses on meeting a social need and where some of the income may come from donations.



Your business might supply either a product (something you can see and touch) or a service (something done for someone else such as childcare, gym membership or software development). Or perhaps a bit of both, like a café.

DISCUSS: What is a successful business?

- Do you know someone who has developed a successful business? Why is it successful?
- Can you think of a business that has failed? Why did it fail?



Sink or swim?

Those who succeed in business have four things in common:

1. Make something or do something that people value
2. Do it better in some way than whatever is currently available
3. Generate an income from that activity (from customers, advertising or grants) that is greater than the cost of doing it
4. Look after the money left over so there is not only enough for them and their family but also to pay tax, pay off any loans and replace equipment used in the business.

Those who fail in business have usually failed in one of these four things.

Franchising

As you think about business ideas you might consider taking on a Franchise. Franchising is like having a business blueprint. You start your own company trading under an established brand with guidance and support. There is a huge array of franchise opportunities in just about every sector, from gyms to sandwiches and pet care to health care. Franchisees pay a fee to start their business and monthly royalties thereafter, usually a percentage of sale, in return for training and ongoing support.

In the UK, see www.franchisedirect.co.uk and similar sites, go to the annual Franchise Show (www.thefranchiseshow.co.uk) and take a look at the British Franchise Association (www.thebfa.org).

You might also find a successful product in one country that is not sold in your country, and ask to be an agent or licensee in your country.

ACTION: What is the right business for you?

The key to choosing the right business or social enterprise is to spot the need or opportunity that YOU can best meet.

You may already have a business idea, but go through the exercises below because you might find a better idea!

1. Make a list of all the groups of people you have some connection with. For example: your neighbours; people you work with; people in your club or church or group; tourists who visit your town; workers in a local business park. Next to each group, list the products and services they might need. For example: cleaning, pet care, food, entertainment.
2. Make another list, with all the things you enjoy doing. What would you do all day even if you were unpaid?
3. List all the things you have the ability and resources to do. For example, your abilities might include cooking, writing, organising events, teaching, driving, childcare, setting up or fixing computers, selling things on eBay, caring for animals. Your resources might be a washing machine, DIY tools, a computer, a car, a spare room or shed. Most businesses will need to buy extra things but it is helpful to think about what you already have.
4. Review all the lists. When you look at the list of what people need, does it remind you of anything you have the ability or resources to do? And when you look through the list of your abilities and resources, does it remind you of any needs you could meet? Add any new items. Spend time extending the list and be encouraged by all your abilities!
5. Finally, look for anything that appears on all three lists. Cross out anything you don't want to do. From this, start to list possible business ideas and then try to get this down to a short list of three for further thought and investigation.

✝ Praying for guidance

We encourage you to pray, alone or with others, to ask for God's wisdom with your decision, and asking God to speak to you. Sometimes God speaks to us simply through things other people say, or he may give someone a specific prophecy for your business. Other ways of hearing from God are through words leaping out at us as we read the Bible, through dreams, visions or pictures, senses, impressions or feelings, or even simply the circumstances around us. God does have an opinion on your life choices, and if there's something he's guiding you towards, he will help you as you do it.

2.2 Researching your business idea

Which idea is best?

You now have a short list of business ideas, based on your abilities and resources, what you enjoy doing, and what people you know need.

Which ideas do you especially warm to? Ask your trusted friends what they think. Decide which is the best idea.

The next stage is to research this idea. You can do this by talking to competitors, or potential customers, or companies offering what you want to offer but in a different area.

The research may show your idea will not work well after all. If so, you will have to go back to your short list and try another idea.



CASE STUDY: Market research

In 1998, three friends set up a stall selling homemade smoothies at a jazz festival. Next to the bins for the empties, a sign read: "Should we give up our jobs to make these smoothies?" One bin was labelled "yes" and the other "no". By the end of the day, the "yes" bin was overflowing. In 2013, Richard Reed, Adam Balon and Jon Wright sold their stake in their company, Innocent, to Coca Cola, for an estimated £100m.

DISCUSS: Who are the competitors?

- Who are Coca Cola's competitors?
- If you run a cinema, who are your competitors?



Thinking about Coca Cola's competitors, Pepsi may come to mind. But it is much wider than that. If the benefit of Coke is to quench thirst, then the competition is all soft drinks including tap water. So Coca Cola has to think about how they can encourage people to drink Coke instead of tap water or any other drink. Likewise, a cinema is not only in competition with other cinemas and TV streaming services. They are in the entertainment market so their competition includes any alternative entertainment. To complicate things, some alternative entertainment (say meals out) could be complementary: a restaurant next to cinema could generate more customers for both of them.

ACTION: How are your competitors succeeding?

If you start this business, who will be your competitors and what is the secret of their success? Find out:

- Who are your competitors?
- What do they offer?
- How much do they charge?
- How do they attract customers?

How you do this depends on your idea. Your research might include:

- Looking at their website
- Looking at on-line reviews
- Trying them out yourself
- Talking with them
- Talking to their customers (ask them why they choose this supplier; what do they like and what don't they like; and how could this supplier be better).

From this, put together a table of competitors with their prices, strength and weaknesses, and how they find customers.

The “suck it and see” approach

Market research can be valuable. But it has limitations. People politely say they will buy from you, until they actually have to part with their money. For some business ideas you may be able to try out your idea very cheaply. When I first decided to be self-employed, I wrote ten letters to potential clients. One replied and hired me. On the strength of that, I started the business. Years later, I bought ten customer feedback kiosks and tried to sell them. When I found they did sell, I set up a new business.

ACTION: Is there enough business out there?

If you expect to sell nationally or regionally in a large market (say ice cream or search engine optimisation), there is likely to be plenty of business there, so long as you can get enough customers to switch to you. But if you are providing a local service (dog walking, café), try to find approximate answers to the following:

- How many potential customers are there are in the area you want to cover?
- How often are they likely to buy?
- How much are they likely to spend each time they buy (on average)?
- What market share do you think you might achieve (i.e. what percentage of the people buying this product or service will come to you)?

You could make your estimate more accurate with a survey, asking a sample of people whether they buy a particular thing, how often and how much they spend.

From, this, is the sales potential sufficient to support your business?

Does this research confirm this business idea or do you need to research a different idea from your short list?

2.3 Who are your customers and how much will they pay?

You now have a business idea to work with. The following sections are about working out where it is viable, that is, will it make money or lose money.

The next section looks at who the customers might be, what they want, how to reach them and what this might cost.



DISCUSS: Why did you buy that?

Think about a product or service you bought recently.

- Who did you buy it from?
- Why did you choose that particular supplier?
- What would cause you to buy it elsewhere?



Why would they buy from you?

What would make someone switch from their existing supplier to you?

There are only really four reasons why we choose one supplier over another.

1. Better: better design or higher quality than other suppliers.
2. Cheaper: cheaper to buy or run than others for the same quality.
3. Faster: we might choose a supermarket because it is the nearest; or a supplier because it does next day delivery, or they provide a more complete service which saves you time.
4. Nicer: The plumber or accountant we choose might not be the cheapest or the best but we like them and trust them; or the way the service is provided is more enjoyable.

Don't assume you have to be the cheapest. You might buy petrol on price, but do you hire the cheapest hairdresser or buy the cheapest coffee? Trust, personal service and quality go a long way. Sometimes companies find they can sell more by increasing their price.

Who are your customers and what is important to them?

What kinds of people or organisation are most likely to buy your product? What do your customers have in common: are they old / young / male / female / wealthy / poor / sports lovers / concerned about the environment / businesses / individuals / public sector / charities? This is your "customer profile". Knowing who your potential customers are in terms of these characteristics will help you design the right offering for them.

From the four reasons people buy above, and your research of competitors, which will be the most important reason why the people you have described switch from a competitor to you?

There may be more than more than one answer because you might have several different customer groups. Perhaps men prefer a different design or colour or shopping experience to women. Or older people want something different from younger people. Or perhaps you have one group of customers where consistent quality is vital and others that just buy the cheapest. This is called customer or market segmentation.

Knowing your different customer segments will help you communicate with them more effectively and possibly develop different versions of your product or service for each group.

CASE STUDY: Customer segmentation in a charity

The international development charity World Vision raises money through child sponsorship; and also runs sponsored fasts in some countries. These two “products” target different donor segments. Children in their early teens, especially girls, were the largest group of participants when the World Vision “24-hour Famine” was run in the UK. Child sponsors are typically a much older group of donors, often parents and grandparents. Having a clear target, and measuring response rates from each advert and campaign, enabled their fund raising to be more cost effective.

How much will they pay?

What is the market price for your offering? What price will maximise your profits?

Many businesses set a price that is a bit more than the cost of producing the product or service. But what is more important is what competitors are charging for a product or service of a similar quality. For some items, especially if they are new or unusual or beautifully designed or difficult to get hold of, customers might pay much more than the cost. It's not what it costs but how much it is worth to the buyer.

What is your strategy: are you trying to sell a lot at a low price or a few high quality items at a high price? You might want to have different versions of your product for different customer segments at different prices. For example, most large supermarket chains have a cheaper range of groceries (“Value” / “Basics” / “Smart Price” etc.) and a more expensive, higher quality range (“Finest” / “Irresistible” / “Exquisite”).

The most common mistake is to undercharge. For some products or services, a low price can put customers off. They assume that cheap means inferior. Do you want a cheap electrician, cheap wine, or a cheap holiday? If you are selling your time, be especially careful not to undercharge. Allow for the unpaid time you need for selling, administration, holidays, sickness, etc., and you may have office costs. You might need to charge double your employee hourly rate or more; but your customers will save because they only have to pay for the time they need and save on National Insurance, pension contribution, etc.

Do you think that changing the price will have a big effect on how much you sell? This is true for easily comparable products (like fuel at a petrol station). If so, reducing your price a little could increase sales so much that you make more money. If changing the price does not have a big effect on how much you sell, increasing your prices could make you more money

ACTION: Customer profile and market segments

- What market segments do you expect to serve?
- Write down the characteristics of each segment (i.e. what customers in each segment have in common)
- Thinking about the four reasons people buy (above), which will be the most important to each segment?
- Do you need different versions of your product or service for different market segments?
- Bearing in mind what competitors charge and the value of your offering, what do you think is the market price for your product(s) or service(s), and will you offer discounts for quantity?

2.4 How will you find your customers?

Now that you have an idea of your customer profile in each of your customer segments, you can begin to think about how best to tell potential customers (“prospects”) about your offerings. It will be vital to find customers quickly when you start the business.

At this planning stage, the important thing is to have an idea of your overall “marketing strategy” and of the likely cost of getting your first customers.

Who do you need to talk to?

Some businesses don’t sell direct to their “end users” and instead sell to manufacturers or resellers such as shops, agents or restaurants. The advertising message to these groups will be different from the message to end users.

For social enterprises and some other businesses, you may need to communicate with several groups of people: “beneficiaries” who use your services; funders such as governmental organisations, grant making trusts or donors, who may be paying some or all of the cost; and perhaps other “stakeholders” (for example, colleges might communicate with parents and with local employers).

What’s the best way to promote your business?

Your mix of sales activities depends on the customer profile in each of your customer segments. Which marketing approach will be the most cost effective for your customer profile(s)?

It also depends in part on “lifetime customer value”. How much profit will your average customer generate per year and how many years do you estimate that they will stay with you? Multiplying these figures together tells you how much a new customer is worth to you and therefore how much you are able to spend to win each new customer.

Your sales activities also depend on your product and type of business you are in. An innovative product you can show people is likely to do well at an exhibition or show. Creative or hobby products would benefit from the development of a community of users on social media. A holiday venue might print attractive postcards and encourage guests to send these or post photos on social media sites.

There is much you can do for free:

- Networking: getting the word out to family, neighbours, friends and attending events where the participants are likely to be potential customers
- Ask your friends and first customers for referrals (introductions to their friends who might be interested)
- Promote on social media, encourage customers to “like” your page, and encourage them to show how they use your product on social media
- Write a blog on something related to your product and publicise it in your social media
- Contacting local newspapers and radio stations to tell them about your new service and perhaps your story.

Options that have a cost include:

- Attend business conferences, exhibitions and club or society events in order to network with prospects
- Build a web site and work on search engine optimisation
- On-line advertising
- Print and distribute leaflets
- Exhibit at a trade show or local event
- Hire a sales agent, possibly on a commission only basis



- Give a reward or discount to customers to recommend you to their friends
- Work with another business selling a complementary but not competing product; for example, each offering a discount voucher for the other's product.

If you sell something expensive and suspect this is a barrier for customers who don't know you, can you offer a sample or taster? Perhaps a free sample at shows, a low cost equipment check or service review, or a three months subscription for free if you sign up for a year, cancel any time. The sample offer could then be linked with a discount on the first full price purchase.

There is further information on sales and marketing in part 3.

ACTION: Marketing strategy

Reflect on the information and ideas above and decide on the following:

- Will you sell direct to end users or through a reseller or both?
- What groups do you need to reach with your product or service (see previous section)?
- What sort of message will they listen to and be influenced by?
- What means will you use to get your message across to them?
- What action do you need to take, when do you need to do this, and how much will it cost?

2.5 Process planning, set up costs and risk analysis

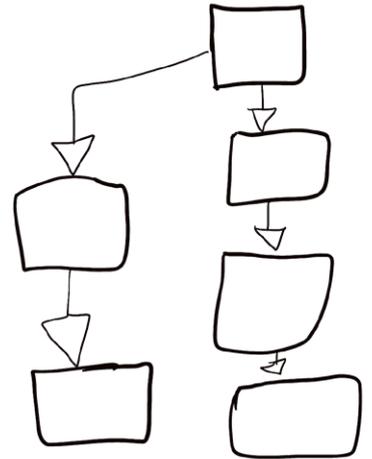
Step by step

You have selected a business start-up idea and begun to research the market. Now we need to get to grips with costs and establish whether the business is viable.

There are several costs to consider. The first is “set up cost”. This is the cost of the equipment etc. you will need to pay for before you begin to offer your product or service.

A good approach to this is to break down each part of the business process into a series of steps. For example, if you are making biscuits, step one is buying ingredients; step two is measuring out ingredients; step three is mixing ingredients, etc. If you are offering a service it may be easier to breakdown the stages as a customer journey. For instance, if you are running a café, step one is taking a booking; step two is welcoming the customer; step three is giving out the menu, etc.

Thinking about each step will help you know what is needed and therefore what the cost will be.



ACTION: Your process plan

Using a big sheet of paper or a computer, make a table with six columns.

- Down the first column, write down your business process as a series of steps, as described above.
- In the next column, against each step, write down any tools and equipment you need for this step.
- In the next column, against each step, write down the people and skills you need.
- In the next column, against each step, think about and write down any ideas you have for doing this step better than your competitors.
- It is important to keep costs low; so in the next column, think about and write down simpler and cheaper options to complete this step. For example, can you borrow, hire or buy second hand rather than buy new?
- Finally, in the last column, against each step, write down the cost of anything you will need to pay for before you start your business.

The total of the final column is your set up cost.

ACTION: Your business start-up action plan

Also use the table above to consider who can help you operate the business and where you can get the tools, equipment and supplies you need.

Where will the business be? What needs to be done to prepare the building? How will you recruit and train the workforce? What other actions are needed before your start?

From all this, write a list of the actions required to start the business, together with the cost of each action and target dates.

DISCUSS: What are the risks?

Plans are great but not everything will go according to plan. A good rule of thumb is that everything will take longer and cost more than you think.

What could go wrong with your action plan? What can you do to prevent it going wrong or deal with it when it does go wrong?

Entrepreneurs are thought of as risk takers. But good entrepreneurs do all they can to minimise risk and plan for the kinds of things that could go wrong.



ACTION: Risk analysis

Make another table, this time with four columns.

- In the first column, list all the things that might go wrong.
- In the next column, write what you could do to prevent it going wrong or deal with it when it does go wrong.
- In the next column, estimate the likelihood of this happening – high, medium or low.
- In the next column, estimate the impact of this thing going wrong; how bad will it be? Again, give this as high, medium or low.
- In the final column, think about how you could minimise the possibility of each risk happening. Pay particular attention to risks that are high likelihood and high impact.

† Jesus tells a business parable

The parable of the talents in Matthew 25: 14-30 is a story Jesus told to teach us how God isn't pleased with people who are too scared to take any risks with the resources they have. God wants you to make good use of the money and talents you have been given and use them to generate wealth (which comes from a word meaning "well-being").

2.6 Operating costs and revenue

The next set of costs to look at are operating costs.

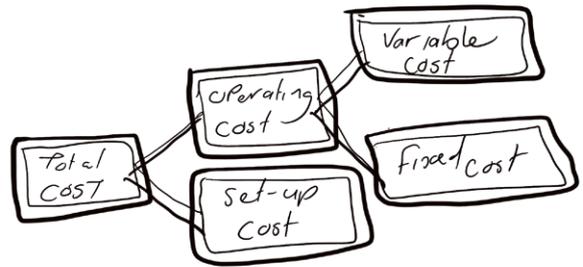
Fixed and variable costs

Some costs are “fixed”. These are the costs of simply existing as a business. For example, the rental on your office; or what you pay your internet provider each month. You have to pay them even if you have no customers. Think of it as the Cost of Being.

Some costs are “variable”. For example, your ingredients if you are making a food product; or the cost of packaging and delivery. They increase in line with level of sales. Think of it as the Cost of Doing.

Confusingly, some costs are either or both. Labour can be fixed (if you’re paying a fixed salary regardless of the workload) or variable (if you’re paying piece work or only need to buy the hours you actually need). An electricity bill might have a standing charge (fixed) and a meter charge (variable).

The distinction may seem academic but it’s important. Knowing your variable costs means you can work out your cost per “unit of sale”. Your unit of sale is what’s on your price list: it might be per item, per pack, per bottle, per kilo, per tonne, per litre, per hour, per day. Knowing your variable cost per unit of sale means you know whether to take an order at a particular price. If the price is lower than the variable cost, turn it down: you will lose money on it. If it is higher than your variable cost per unit then there will at least be some surplus contributing to your fixed costs (though you will need to sell enough to completely cover fixed costs).



CASE STUDY: Tackling high fixed costs

A dog food manufacturing company were losing money. They were selling the dog food for more than the cost of manufacture but they had high fixed costs. So they needed to increase volume, to spread these costs over more units. This was done through “own label” products for retailers and a partnership with another pet industry company with its own sales force. This sales force started selling the dog food in return for a commission. Both these things meant a bit less profit on each sale, but the higher level of sales meant the fixed cost were covered.

If the issue had been high variable costs, raising the price and accepting lower volume might have been the best approach.

Working out “realistic” variable costs

Your variable cost per unit is easy to work out. For example, if making 100 biscuits costs £10 and you are selling the biscuits in packs of 10 (your unit of sale), then the variable cost is £10 divided by 10 packs so £1 per pack.

However, this is just the “ideal” cost per unit. Unfortunately, some of the biscuits you are making will break or go stale before anyone buys them. If you are offering a service, some of your customers will miss their appointment so time is wasted.

So, out of every 100 units of sale, how many will you actually get paid for (on average)? Divide your cost for 100 units by the number of units for which you will actually be paid. This is your “realistic” variable cost per unit. So if in the example above you are only paid for 90 out of every 100 biscuits you make (because 10 are broken or go stale), the realistic variable cost is £10 divided by 9 packs, so £1.11 per pack.

ACTION: Calculating fixed and variable costs

- List all your fixed costs and estimate the fixed cost per month.
- List all your variable costs.
- Decide on your unit of sale (per pack, per kilo, per serving, per hour, etc.).
- Estimate your cost per unit.
- Out of every 100 units of sale, estimate how many you will actually get paid for (on average). Use this to calculate your realistic variable cost per unit.
- Repeat this for any other products (perhaps the biscuit maker will also make cakes).

Revenue

You have already thought about what price to charge per unit of sale, drawing on your competitor research. Hopefully this is more than the variable cost per unit that you have just calculated. The next stage is to calculate revenue and total operating costs.

ACTION: Calculating revenue

- How many units do you think you will sell per month, once you get going? (Later we will look at likely sales in the first few months).
- Multiply this number of units by the price, to give total revenue per month.
- Also multiply this number of units by the realistic variable cost per unit, to give total variable cost per month.
- Calculate total operating cost (fixed cost plus variable costs for this output in a month).

Is the total revenue per month greater than the total operating cost per month? If it is, this is your “operating profit”.

Break-even point

Whether or not you appear to be profitable, it is helpful to know your “break-even point”, the minimum level of sales to cover your operating costs.

You know the price per unit of sale and the realistic variable cost per unit. The “gross profit” per unit is the price minus the variable cost. If the pack of 10 biscuits sells for £2, and the realistic variable cost is £1.11, then the gross profit is £2 minus £1.11 = £0.89 per pack. Every pack you sell contributes £0.89 to your fixed costs.

If fixed costs are £500 per month you need to sell £500 divided by £0.89 = 562. You need to sell 562 packets of biscuits to break even.

2.7 Cash flow

Why a cash flow forecast is vital

The most important question at the planning stage is to find out whether your business idea is viable: will your business succeed or fail?

This come down to two questions:

- do you have enough cash?
- will the business be profitable?

These are not the same: fast growing companies can run out of cash and therefore fail even though they are making a profit.

To see how much money you need and to make sure you don't run out of money, you need a cash flow forecast.

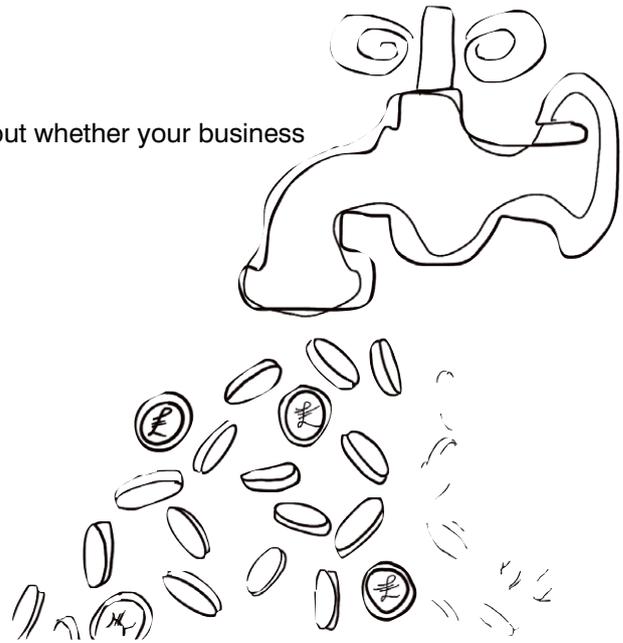
What is a cash flow forecast?

You probably receive bank account statements, in the post or online. Take a look at your most recent bank account statement. At the top it will say "Opening Balance", the amount you had in your account at the beginning of the month. Then there will be a list of any money that was paid into your account during the month ("credits") such as your wages. And also everything that has gone out during the month ("debits"), the payments for things you have purchased.

A cash flow forecast is simply a best guess at what your business bank account statements will look like in the coming months. What will be your opening balance when you start your business? What will you have to pay for during that first month? Will you receive any income during the month? This is probably not the same as sales for the month: many businesses do not receive payment from their customers when the sale is made because they raise an invoice and this might not be paid until the following month or later.

So a cash flow is different from a simple list of your income and costs because it takes into account when you will pay and be paid; and it has a monthly opening and closing balance.

Do you need to take an income out of the business? If so, this will need to be included this in your costs. If you can manage without an income for a while, then just draw your income from profits when these start to materialise.



ACTION: Prepare your cash flow forecast

This can be done on paper but is easiest using a computer spreadsheet such as Excel. There is a free template to use at www.mindyourownbusiness.uk. The first tab is an example with some notes, the second is for you to add your own figures. You can then delete the first tab and use this as part of your business plan.

The template starts with an optional section listing predicted sales from different product or services, together with their selling price. This is just to help you add the income figures and to make it easy to alter price or the number of units sold.

ACTION: Prepare your cash flow forecast (cont.)

In the first column, list all the possible sources of income, and a total income underneath. Then list all the likely costs with a total underneath. Then add a line “cash flow in month” which is the increase or decrease in cash over the month (total income minus total cost).

Finally, add a row, with “opening balance”, the amount you have at the start of the month (sometimes this is at the top). The final row is the “closing balance” (opening balance plus income less costs).

Label the next column as month 1, month 2, month 3 etc. or use or the actual name of the month, the first month you start running the business. The template also has an optional pre-launch column which you can use or delete.

Then fill in your estimated income. Remember to only include the money you expect to put in the bank that month. Which may be nothing: even if you have sales in month 1, your customer might not pay until month 2 or 3. Then add your estimated costs, but only if the money will actually leave your bank account that month.

After this (or at the top if you prefer) add the opening balance, the amount you have at the beginning of the month. If you are using a computer, the closing balance underneath will be calculated for you.

Your cash flow and closing balance are probably negative. Transfer the closing balance to the opening balance at top of the next (month 2) column (this is done automatically in the template) and repeat the process for month 2, month 3, etc.

How to use the cash flow forecast

Normally, cash flow closing balances for a start-up are increasingly negative. Then - if the business is profitable - the negative balance starts to reduce, and eventually the balance is increasingly positive.

How negative is your worst month? This amount – and add more as a safety margin – is what you need to start the business. This is the “start-up cost”. The start-up cost is the set up cost plus the money you need to cover initial losses.

Is it a realistic amount for you to invest or borrow? If you are paying interest, add the interest payment to your cash flow costs, so the total you need to borrow will be higher.

2.8 Will your business be profitable?

In the last section we asked whether your business was viable and said this comes down to two questions. The first was “Do you have enough cash?”, answered with the cash flow forecast. The second is “Will the business be profitable?”

We have worked out total operating profit but this is not the end of the story.

To work out if your business is profitable, there are other costs to consider. Your profit needs to cover:

- the cost of any loan you have taken out
- your salary, if you need to draw money out
- Equipment replacement costs, known as “depreciation”.

Depreciation will not affect initial cash flow, but it affects profitability. If you are not making enough money to replace worn out tools the business will eventually fail.



ACTION: Equipment replacement plan

- List each item of equipment you will be purchasing for the business: machines, computers, printers, vehicles, etc. Don't include anything you are hiring (that should already be in your operating costs).
- For each item, write down how long you expect it to last before it needs to be replaced.
- For each item, what is the cost of replacement?
- How much should you therefore set aside each month to replace your equipment? For example: if you are buying a piece of equipment costing £1,000 that you think will last 5 years, the annual depreciation is £1,000 divided by five = £200 a year or £16.67 a month.

Now, take your monthly revenue and deduct operating costs, loan costs, salary and depreciation. Will there be any money left?

ACTION: Improving the bottom line

If not, think about how you might increase revenue or reduce costs.

- Are there any other income streams you can generate? Could you sell those broken biscuits at a cut price? Or run classes in biscuit making or biscuit decorating parties? Or rent out your premises and equipment at the weekend or set up a café?
- Could you sell more? For example, by covering a bigger geographic area, or selling on-line or selling to other markets?
- Could you increase your price? For example, the biscuit maker could design a luxury biscuit at a higher price that is more profitable, or sell direct to the public rather than through a shop.
- Can you reduce your costs? For example, if you are renting your premises, can you negotiate with your landlord to reduce rent or start with a “rent holiday”? Or can you buy equipment second hand, or rent or borrow it? Can you reduce the loan amount you need by obtaining customer payments earlier or paying suppliers later?

Be realistic: if the business looks like it will not be profitable, it is better to know that now when you are planning than when you have started spending money.

If it doesn't look profitable even after considering the points above, you will need to think of a new idea and check whether the new idea is profitable.

If the business looks profitable, go ahead and make it happen!

TOP TIPS

- Ask for help and ask for sales referrals. Ask customers if they have friends who might also be interested and ask if you can quote their name. You will be probably be surprised by the amount of goodwill you receive as you get established.
- It will cost more and take longer than you think.
- Persist - because it will take longer than you think; don't let others discourage you.

CASE STUDY

An outsourcing business founded in 2012 almost closed the following year. The founders were too optimistic in their sales projections, so the company was making a loss and had also too little money. But a venture capital company saw the founders' passion to make it work, invested, and in 2015 the company finally made their first profit. Now, there are over 120 staff in the business.

✚ Making a profit

Making a profit has historically been viewed with some suspicion by some in the church. But profits can be used for great good, like expanding the business to employ more people, serving more customers with what they need, and giving away to local needs or charities. It is the love of money, not money itself, that is the root of all evil (1 Timothy 6:10). In fact, research into what makes companies the most successful has shown that if instead of aiming for profits you aim for other important things like good quality working relationships and minimising waste, you're actually more likely to increase your profits.

2.9 Business structure and name

It may be that you can test or pilot your business on a small scale without setting up any formal structure. But as soon as you are generating an income you need to decide on your legal form of business. The broad alternatives below apply to most countries though terminology may differ. However, particular legal forms will vary between countries so check your own national arrangements if you are outside the UK.

Note: If you are in effect an employee but you set yourself up as self-employed or are paid through your own company to reduce tax, you need to seek advice as the tax authority may decide you are an employee.



Main commercial options

Sole trader essentially means being self-employed (but you can have employees). The accounting requirements are simple, National Insurance is lower than for employees, and you can trade in your own name with your existing bank account. But sole traders have “unlimited liability” meaning that you are responsible for any debt; so if it all goes wrong it could bankrupt you. Worth considering if you offer personal or professional services, but take out Professional Indemnity Insurance so you’re covered if you make a mistake.

Partnerships are similar to sole traders, but you share ownership with a business partner. Ask a lawyer to draw up a partnership agreement before the business is actually worth anything. This protects each partner by ensuring key decisions are made by both partners, and it deals with what happens in different circumstances (say if a partner wants to leave the business). You may be good friends now but once there is real money at stake, different expectations can cause relationships to break down.

Companies limited by shares are organisations that are a different legal “body” from the owner(s), so when a business becomes a company it is sometimes called “incorporation”. The business has become a legal entity that is separate from you. They are known as private limited companies, unless they are listed on a stock exchange so anyone can buy and sell their shares; in this case they are called public limited companies and there are further regulations. In the UK and many countries, private limited companies can be set up online easily and cheaply. Some or all the profits (“dividends”) can be distributed to shareholders. Companies are liable for Corporation Tax but paying yourself partly in dividends may save you tax or national insurance (but see note above). Liability is limited, so if the business fails, the business, not you personally, goes bankrupt. In practice, if you have a bank loan, the bank will probably insist on personal guarantees, so you are not entirely protected. In the UK you’ll need to register at Companies House and submit an annual report and accounts and there will be similar arrangements in other countries. If you have more than one shareholder, ask a lawyer to draw up a shareholder agreement. This protects minority shareholders and specifies the decisions that need the agreement of all shareholders.

Social enterprises and charities

Unincorporated Associations are typically used by sports clubs and small community projects. They have a constitution and members and can have charitable status.

Companies limited by guarantee are very similar to companies limited by shares, and can be set up online quickly and cheaply. They have no shareholders, therefore profits cannot be distributed, so it is used for not-for-profit businesses. Instead of shareholders they have “Members” who meet to elect directors. They can have charitable status.

Charitable Incorporated Organisations (CIOs) are a newer structure designed to be simpler than a company limited by guarantee with charitable status.

Community Interest Companies (CICs) are another newer structure designed for social enterprises that benefit a community. They can be limited by guarantee or by shares.

Co-operative Societies and Community Benefit Societies are for co-operatives and credit unions. Formerly known as Industrial and Provident Societies. See www.fca.org.uk/firms/mutual-societies

For full details see www.gov.uk/government/organisations/companies-house and www.gov.uk/government/organisations/charity-commission. Outside the UK, contact your own national authority.

Naming your business

What will you call your business?

- Using your own name keeps things simple but it could be awkward if you sell; and does your name mean anything to potential customers?
- You could try something like Apple or Orange, but unless you are a fruit seller or have a lot of money to communicate the brand, it will mean little.
- Instead consider a name that says what you do: Yummy farm ice cream or Mrs Marshall's biscuits. Then potential customers will immediately understand what you offer.
- Or try a play on words, e.g. Surelock Homes (home security); Grate Expectations (fireplaces); Pita Pan (Shish Kebabs), or Hairy Pop-ins (pet nannies).
- Avoid anything similar to an existing brand. You could be sued for "passing off" i.e. pretending to be a different well known company.
- If you plan to sell internationally, check your name is not rude or inappropriate in languages of the target market. The Vauxhall 'Nova' car was not popular in Spain.
- Avoid having lots of sub-brands. Big companies like Unilever do this but small companies with limited budgets should focus on trying to get one name or brand well known.
- Check there is a suitable web site name available and check on Companies House that there is no existing business by that name (even if you don't plan to incorporate yet).
- Some words are restricted or require permission for use in names because they might mislead (like "Royal" or "International").

More information: https://www.gov.uk/government/publications/incorporation-and-names/incorporation-and-names#choosing_name

CASE STUDY: Name and structure

My first business was a marketing strategy consultancy which I just called Jerry Marshall Associates, with a strap line, "Marketing Strategy & Action". I was a sole trader and at first used my own bank account rather than a business account, so using my name saved money. I took out Professional Indemnity Insurance to protect me if I was ever sued. The business grew and in time I took on an employee who became a partner and we incorporated as "Marketing Strategy & Action Ltd". Later we bought some market research equipment from the USA and when we found they sold at a profit we signed a Licensee agreement and this side of the business became a separate private limited company, Customer Research Technology Ltd, with a strap line, "Beyond Question".

ACTION: Decide on the right business structure and name for your business.

2.10 Sources of funding and business planning

When you know how much you need to start up your business, think about where to find the money. These can be loans, on which you normally pay interest, and need to be repaid; or investment capital (“equity”), where you sell a share of the business.

Grants and free support – the best sort of funding. For a list of start up support see <https://www.gov.uk/business-finance-support>

Your own savings or assets – the starting point is your own savings. If you own a house, consider taking out an increased mortgage to release funds.

Loans from friends and family – great for small amounts and usually quick. But you risk damaging relationships if you can’t pay the money back when it’s expected.

Loans from banks and building societies – they don’t always lend to start-up businesses as this may be considered too risky. Banks will usually need a business plan and a cashflow forecast. If approved it can take 2-3 months to actually receive the money. You will have to start repayments the month after you receive the loan i.e. often well before you have started to get money in from your customers. They are likely to expect personal guarantees which means if your business cannot repay the loan you must pay them back from your personal funds. For larger loans they often want a charge over your property, which they can repossess if you can’t repay your loan.

Loans from CDFIs – Community Development Finance Institutions are not-for-profit organisations that work in a similar way to banks and charge similar rates but are usually for businesses that have been refused a bank loan. See <https://responsiblefinance.org.uk/> to find your local CDFI.

The Start Up Loans Company - a government backed scheme that offers loans of up to £25,000 at 6% for 1-5 years with a year of free mentoring, see www.startuploans.co.uk/

Investment capital from friends and family – when friends and family don’t need the money back quickly, and believe your business will be successful, they may invest in your business by owning a percentage, as partners or shareholders.

Investment capital from business angels – people who invest their own money in businesses in exchange for shares. They often join your Board and offer advice which can be very useful. But they will want to sell their shareholding, usually after 3-5 years, so are usually interested in businesses with potential to get to trade sale or public listing quickly.

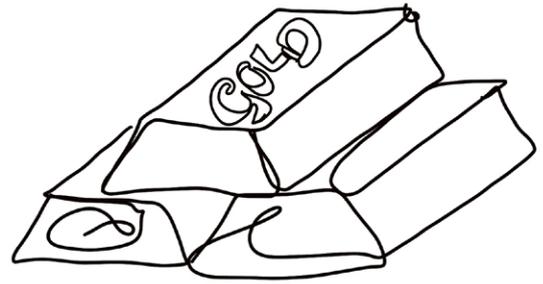
‘Peer to peer’ lending – loans or equity from individuals via an internet platform. See for example www.fundingcircle.com , www.thincats.com or www.fundingknight.com . See also crowdfunding below.

Crowdfunding and crowdsourcing

Until recently, entrepreneurs relied on friends, neighbours and family for loans, ideas, market research, help with a variety of tasks and first customers. Now you can do all these things by talking directly to over three billion people who are online, developing communities of interest on everything from T-shirt design to classifying galaxies.

Crowdfunding can be used to ask for donations (e.g. Justgiving); business loans (e.g. Fundingcircle); equity funding (e.g. Crowdfunder) or to offer a reward in return for funding (e.g. Kickstarter, Indiegogo).

Crowdsourcing can be used to release people’s creative talent and abilities. It can be done by paying for global expertise by the task or hour (search online for freelancers or microtasks). Or by encouraging innovative solutions to problems through competitions, an Internet age version of the Admiralty’s Longitude Prize won by horologist John Harrison in 1765 (see Xprize.org for inspiration). It is also a way to tap into people’s passions, for example localmotors.com or galaxyzoo.org.



CASE STUDY: Crowdfunding

In 2008, an industrial design student and keen cyclist in the Netherlands had a question: when you are cycling and your phone rings, should you ignore it or stop and take the call? So he put together some funding and a team, and designed an affordable smartwatch prototype that told the time and who was calling your phone. The problem was they needed \$200k to get into production. So they turned to crowdfunding using Kickstarter, inviting the public to pledge \$115, which would only be taken if the target was reached. In return they would receive a 'Pebble' smartwatch when it became available. In effect, backers were offered a pre-launch discount in order to make it happen. To the surprise of everyone, over 37 days in 2012, 68,929 backers raised over £10m and Pebble sold more than 400,000 watches in their first year. Kickstarter demonstrated there was a market and provided funding, initial customers and much publicity. Sadly, Pebble closed in December 2016.

CASE STUDY: Crowdsourcing

Two nineteen year old unemployed designers met through an online T-shirt design competition. They decided these competitions should happen more often, so they created a website that hosted them every week. This website community voted, the winner got a small cash prize and the T-shirt was put up for sale. It turned out that people really like to submit designs and vote for them. Today, threadless.com is one of the largest T-shirt businesses in the world with annual profits of over £15m.

Business planning and further advice

In many cases, to obtain funding, you will be asked for a business plan. This builds confidence in you and also helps you be clear about what you are doing. A template for a business plan and for a cash flow forecast can be found at www.mindyournbusiness.uk. There are also templates and a wealth of further advice at <https://www.startuploans.co.uk/business-advice/>.

ACTION: Prepare your business plan, obtain finance and launch the business!

✝ Work and Enterprise

One of God's key concerns is for us to have good, healthy relationships with those around us. When asked what the most important commandment was, Jesus replied 'Love the Lord your God with all your heart and with all your soul and with all your mind and with all your strength'. The second is this: 'Love your neighbour as yourself.' How we deal with suppliers, customers, and especially how we treat colleagues and employees will impact us, them, their families and our communities. As the founder of a new enterprise, you have a brilliant opportunity to set the tone and create a context for human flourishing, not just a way of bringing in money.

PART 3: LIFE ON THE OCEAN WAVE



How to use this section

This section is about running and further developing your business. It can be used as a reference section, or as a basis for a series of gatherings of business people and aspiring entrepreneurs.

Most of the material previously appeared as “Beer Mat Mentoring” Sessions. The idea was to meet somewhere convivial as a mutually supportive group, say once a month. The programme would normally include:

- A speaker who presents briefly on a topic, from their own experience or from these notes
- A discussion of the topic as a group, sharing further advice
- An opportunity for anyone to share their current challenges then discuss approaches and answers to these challenges as a group (or several sub groups).

3.1 Building a website

Businesses run out of the back of your garage can now compete with M&S or Mercedes. The Web means you can have a shop front in the planet's busiest high street.

You can use your web presence to display your wares; have a conversation with your customers; demonstrate and share your knowledge; sell them a product, service or appointment; and take down the contact details of prospects. Before you start, decide which of these you are trying to do.

Plan out the kind of pages you want, and write the text that will appear on each one. Don't leave this to the designer, as it'll be both better and cheaper if you do it.

Find some websites you like and work out why. You may not be able to afford anything as fancy but you can still pick up good ideas. Think about your customer profile and look at websites serving similar groups of people to see how their design is tailored to your type of customer. Make sure your web site will work with different types of access – mobile phones and tablets as well as laptop/desktop computers.

If your business is conducted online (e.g. is a webshop), you may prefer to use a professional. But if it's a local business and you only need a simple web presence you may be able to build it yourself using free software such as WordPress.

Options for a web presence

You don't necessarily need your own website. You could instead use www.facebook.com, www.instagram.com, or www.pinterest.com to connect with customers. Or go www.etsy.com/uk to sell craft supplies or hand-made goods. List your holiday let with www.airbnb.co.uk or use www.eventbrite.co.uk to sell your event or training. Photographers could consider a Flickr Pro account: www.flickr.com/account/upgrade/pro for \$50 a year. If you want a web shop that takes payments, try www.shopify.co.uk or www.ekm.com from \$30 a month.

If you want your own site, have your own memorable, easy to spell, unambiguous web domain. Register your domain yourself so that you own and control it. Cost for domains such as ".com" ".org" and ".co.uk" are from about £5 to £10 a year.

A Content Management System will provide you with a framework into which you can quickly add your content without having to learn web programming. By choosing a different "theme" you can transform the look of your website in minutes not days. WordPress is the most popular. It offers lots of good free themes and "Plugins" which add extra features. Web hosting companies usually offer a quick way to install it. I use www.fasthosts.co.uk/ which provides a domain name, WordPress hosting and good "help" for under £10 / month, but many others offer similar services.

Be user and search friendly

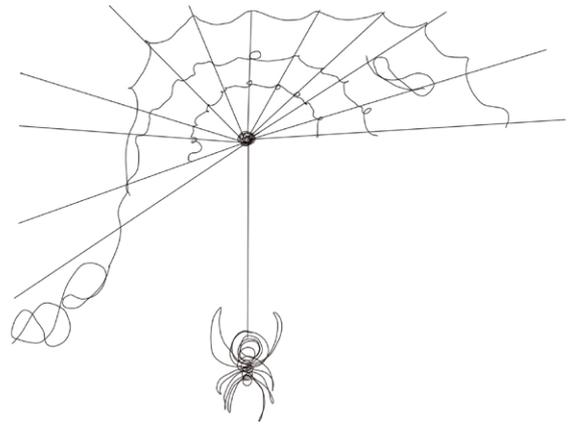
More than half of all searches are now done from a mobile device. Choose a "responsive" theme to allow your website to be readable on mobiles and tablets. Visit <https://testmysite.thinkwithgoogle.com/> to check how mobile-friendly your website is.

Use <https://gtmetrix.com/> to see how fast your website loads and for tips to improve it. On e-commerce sites, 40% of visitors abandon a website that takes more than 3 seconds to load. The days of dial-up Internet are long forgotten.

When it comes to writing the web site, avoid block capitals for large amounts of text as this is hard to read. And keep the contents fresh: if you have a news section, add an article at least every month. Note legal requirement, e.g. companies must give their registration number and registered office. See <http://www.ukwda.org/blog/is-your-website-legal>.

Finally, keep page titles to 65 characters or fewer (including spaces) and keep summaries to 140 characters or fewer. Otherwise Google's search results will stop in mid-sentence. For example, Google "Writing for Gov.uk".

If it's all a bit too technical, just call in a favour from the younger generation. They'll sort you out.



3.2 Sales

You have set up a successful business, and now you want to develop your business further. The key is sales: if you don't nurture and breed customers fast, the business will be in trouble.

Make friends and influence people

The starting point is networking: getting the word out to family, neighbours, friends, friends of friends (via referrals), and attending any events where participants are likely customers.

At an event, arrive when the doors open and bring business cards that say what you do. Go up to individuals and small groups, introduce yourself briefly, and ask what brings them there (or whatever is appropriate). Show an interest in them and they will ask about you. Explore links. The greatest success comes as a by-product of generously helping others. Nevertheless, if they are not a prospect, draw the conversation to a close at a suitable point and meet another group.

Can you succinctly describe what you offer? What is it, what's special about it and how does it benefit the customer? Benefits are quite different from features: e.g. the edges are rounded (feature) for a comfortable grip (benefit); all staff are members of the trade body (feature) for complete peace of mind (benefit).

Field sales

Some businesses will require 'field sales' i.e. going out to meet prospects. This is especially true for business services and consultancy where you might be selling contracts worth thousands of pounds each. It's difficult to generalise but here are some tips. The approach for high value telesales would be similar.

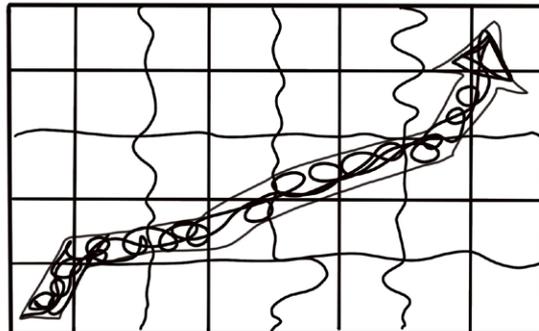
- See yourself as a consultant: ask your prospect questions to understand the underlying problem they need to solve. For example, they might say they need a new web site, but find out why and what they want to achieve as a result. Is their aim to increase sales, or to reduce the cost of telephone customer support, or something else? Also ask who is involved in the decision, and what the budget is.
- If possible, outline your proposed work with them and give them an idea of the cost to check their reaction. Then write a proposal, take this to them and go through it.
- People buy three things: you, your business, and the deal you are offering. If they like and trust you, and your business looks credible, they will be less concerned about getting the cheapest price.

Don't forget to keep in touch with existing and past customers as they will be the easiest to sell more to; and ask them to suggest other customers and how they think you could do better.

Designing your sales material

You may find useable templates online but it can look amateurish so it is usually worth investing in professional graphic design. Either way you do need to think carefully about the look you're going for and the words you use. Think about your customers when planning your promotional materials such as signs, fliers, brochures, advertisements, letters and of course your website.

- How will you get their attention? (e.g. photos, colours, 'feel'). Where are they most likely to see your materials? On the side of a local bus? Online? On a flier through their letterbox? On a wall by a traffic light queue? With a free sample at a stall?
- Focus on the benefit not the product or feature (e.g. 'Relaxing breaks at Hill Farm' rather than 'Bed and Breakfast at Hill Farm').
- State your specialism and tell them what makes your product or service better.
- Maybe ask a question? e.g. Need a quiet break somewhere relaxing? Looking for a local website designer? Does your dog need walking?
- Make sure you include the action you want them to take e.g. Book now, Arrange a free consultation, Pop in and see us, Give us a call. Ideally add a "compelling reason to buy" e.g. book "before the price rise" or "while we still have spaces available".
- Include quotes from happy customers.



3.3 Promotion

There are lots of different ways to communicate what you have and persuade people to buy from you. In particular, build a good web site (see back). Here are further approaches.



- **Social media:** if you are selling creative products (say natural wool or craft kits), encourage clients to share what they have done with them on your Facebook page and also on Pinterest / Instagram / WhatsApp. If you are offering expertise, tweet pearls of wisdom and follow and reply to others in the field to build your own followers. Write a blog and tweet the link.
- **ENews:** issue a regular eNews, using say www.campaignmonitor.com or www.mailchimp.com.
- **PR:** get a mention in local or trade media especially if you have a new product or special event. Respond to news that affects your industry and try to become the “go to” expert for your local or trade media. If you are selling expertise, offer to write a column in the relevant magazine.
- **Exhibitions:** is there a trade show you could go to? Consider sharing a stand with complementary but not competing businesses. Shows work well for a new product or something visually interesting. A small stand is fine but choose a good spot (not tucked away); hold a simple leaflet out and ask everyone walking past a question that will identify your customers (“Are you involved in...?”); keep clear notes on all prospects you speak to and keep them secure (competitors might take them); keep the stand clear of coffee cups and other mess. Follow up leads promptly.
- **Premises:** if you have a premises that customers visit, does it look smart? If people walk past, do you have a sign that attracts attention and explains what you do and a benefit of using you?

Sales promotion

Sales promotion covers the different approaches you can use to boost sales. If you want more people to give your product or service a go, here are a few ideas.

- Contact a local society or association and ask if they would distribute an exclusive introductory discount voucher to members.
- Offer a free product sample at shows or in a store, or a free check-up.
- Offer a no-quibble money back guarantee (this reassures buyers and take up tends to be low).
- Offer existing customers a reward for finding a new customer.
- Run a competition through a local magazine with some of your product as a prize.
- Contact a local charity and offer to donate an amount for every sale if they tell their network.
- Offer your product free for a local event in return for publicity.
- Offer a gift version of your product with a free gift card.
- Offer appropriate promotional items – mugs, pens, postcards, t-shirts – free or at cost price.
- If you sell through a shop or other distributor, offer an additional discount or other reward for a certain level of sales.

Successful promotions include a café that sells their own branded coffee mugs to customers; a lodge giving away free postcards of the house; and an interpretation company that gave away mugs with their phone number and all the languages they covered.

Piggyback ride

Look out for partnerships: there may be another business with a non-competing product or service sold to a similar market to yours. Maybe you could ‘cross sell’ with each of you giving away a sample or voucher for the other company?

Offering something of significant perceived value but at little cost can be effective: for example, a local gym might let you give away a free three months’ gym membership if you were selling to their target market and they thought they could convert your customers to paid membership after their three months. But look carefully at probabilities and take up rates for offers and give-aways. Occasionally big companies have had expensive disasters with over generous offers; older readers may remember the Hoover free flights offer, which cost them £50m.

3.4 Reporting

Computers can provide masses of information on our business: profit and loss; balance sheet; endless reports and graphs, customer analysis, Google analytics. This may give us the illusion that everything is under control. But what do we really need to know to be sure our business is on the right course and not about to sink?

A good approach for a small business is an “A4 on the 5th”, meaning one A4 page of critical monthly data by the 5th of the month following. A small amount of the right information provided promptly. What you include in your template depends on your business, but these are the three important categories.



(1) Sales and marketing measures

What are your key leading indicators, i.e. measures that tell you how things are likely to pan out in advance so you can take action?

It may be enough to put a value on enquiries received and orders taken. Or, if the sales process is long, include a report on the sales pipeline: how many prospects are there at different stages of the sales process, and what is the estimated order size and probability?

Can you measure the return or performance of each aspect of your sales, for example, sales value per ad / salesperson / outlet?

If you are, say, renting holiday homes or organising an annual event, are the numbers of enquiries or bookings more or less than at the same stage last year? Use this to forecast outcome and take action if required.

Are you especially dependent on a few large clients? If so, how can you track your performance and customer satisfaction on these accounts?

(2) Financial measures

One approach is to bring everything together in a cash flow table for the year with monthly actuals for the past and forecast for the future, and which also incorporate sales information.

If you receive payment after delivery, some form of aged debtor analysis is important so that you immediately spot clients who are getting behind with their payments.

There may be other critical measures, for example turnover for the previous 12 months if you are not VAT registered but trade close to the VAT limit.

(3) Key Performance Indicators (KPIs)

What sets you apart from your competitors? If it's say, 24-hour delivery, how are you monitoring this? What goes wrong and has a significant impact on your success? What aspects of quality are critical? If your scrap, discard or no-show rate varies and has an important impact, measure it to focus on improvements.

Other things to know

There are other things that are valuable to know but you may not have the volume to record them monthly and draw meaningful conclusions. For example:

- What percentage of new website visitors (or enquiries or sales calls) turn into new paying customers and how is this changing?
- What is your customer retention rate (what percent of first time customers are still customers a year later)?
- What is the cost of customer acquisition, what is the average lifetime value of your customers, and how do they compare?
- How profitable are each of your products or services (and would you make more money by ditching the least profitable line)?
- How are customer satisfaction levels changing?
- What else is important for your business?

3.5 Compliance

Non-compliance can be expensive. Here's a basic check list. Outside the UK, check local requirements.

Tax

- When you become self-employed, register with HMRC and complete an annual self-assessment tax return. You probably need to pay National Insurance and income tax.
- Register for VAT if turnover is over the threshold (£85k at time of writing) and consider registering if turnover is less; check HMRC for the fine detail.
- If you have set up a registered company, check out corporation tax and complete an annual return.



Employment

- Do you have employment contracts for staff members and do you meet minimum wage and auto-enrolment pension requirements? The Federation of Small Businesses can be very helpful here, www.fsb.org.uk
- Don't fall foul of the law on parental leave, sick leave, disciplinary issues and dismissal, discrimination and retirement.

Workplace

- Carry out a health and safety risk assessment, evaluate hazards, take "reasonable" action to minimise risks, record your findings and review your assessment regularly. PAT test all portable equipment.
- Inform staff of your health and safety policy and procedures. Inform them about safe working methods, protective clothing and workplace rules. Have an accident book and tell staff where it is kept.

Insurance

- Take out Employer Liability Insurance and display your certificate.
- Do you need product liability, public liability, professional indemnity, shop, tradesman or landlord insurance?

GDPR

Comply with data protection law and register with the ICO if required. Your business must be GDPR compliant if you acquire, store or use personal information in any capacity. Serious breaches carry a steep fine. The following is a summary but search the Web for full details.

- Ensure your data requests have clear and explicit consent; explain what personal information your business is collecting and how it will be used. Provide easy ways to opt out.
- Dispose of old data: put in place policies that determine how long data can be stored.
- Data storage and security: Review how you store data (email inboxes, customer databases, mobile phones, cloud applications). Create a data processing and storage policy which includes how data is stored and protected, who has access to it, how data is transferred or taken out of the business. Have a data breach plan e.g. if a laptop with customer details on it is misplaced.
- Appoint a Data Protection Officer.
- Train staff on data handling.
- Create a Subject Access Request plan (SAR) so individuals can access all the data you hold about them.
- Ensure suppliers are GDPR compliant: ask them to complete a GDPR compliance form detailing how they handle data, security and storage procedures, and what type of data they handle.
- Create a "Fair Processing Notice" (FPN) explaining how you capture, process and store data and how it can be accessed. Display this on your website and where you are collecting data provide a link to this.

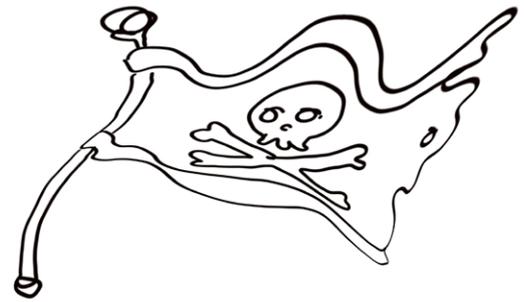
Digital

- Don't sent unsolicited direct marketing emails or messages to individuals. Emails can only be sent where consent has been given or where a 3-point "existing customer relationship" test is met. Include an "unsubscribe" link. Emailing companies is less clear cut but take the same approach to be safe.
- Don't break copyright on images on your website or elsewhere: certain companies search for them and hit you with an invoice for thousands of pounds.
- Ensure your software is properly licensed.

3.6 Information security

The Internet is a wonderful thing. But there are pirates everywhere who want to board and plunder your vessel. Have you left a rope ladder dangling over the side?

Here are some key considerations. This is about your data and also your customers' data. The Information Commissioner's Office can impose large fines if you don't keep this secure.



Use strong passwords

- “123456”, “password”, and “qwerty” are still popular passwords; www.dinopass.com has better ones.
- Use a different password for each website. www.dashlane.com or <https://lastpass.com> will help you remember these passwords.
- Your email address is probably the key to resetting the password for every website service you use. Secure it with a strong password and look into how to set up two step (“Multi-Factor”) authentication.
- Use passwords as the answers to your security questions. Name of your first pet? “h@ppySugar79”.

Keep your information secure when travelling

- Consider a “MiFi” dongle or “tethering” your smartphone to avoid using unsecured Wi-Fi.
- Don't advertise! A laptop sleeve inside another bag is less obvious than a Targus or HP case.
- At exhibitions, secure your laptop to something solid to stop opportunistic theft.

Take backups

- What are you guarding against? The “whoops” factor of deleting a file? Your hard drive crashing? A burglary or fire where you lose your backup drive and laptop? An HMRC audit asking for files from seven years ago?
- Use a cloud backup service like Mozy or Carbonite to back up all new or changed files. Around £10/month.
- Have a backup strategy e.g. buy multiple USB flash drives. Each month, back up your key documents, label it and store somewhere safe, not next to the computer. Try restoring some files.
- Replication (e.g. Dropbox, Google Drive) is useful, ensuring the same document on several devices, but if you delete it on one device, it will (eventually) be deleted everywhere.

Turn on security options

- Set your computer to install security patches. Run an antivirus program.
- Other programs have patches – use <https://ninite.com> to update Dropbox, Skype etc. in one click.
- Protect your mobile phone with a PIN. Take backups. Turn on the “find my phone” feature. Decide if you want to be able to wipe it automatically / after 10 incorrect attempts at inputting your PIN.
- Consider hard-drive encryption (Windows Bitlocker) which will mean that even if someone steals your PC, they can't get to the information. If you lose the key, you won't be able to get to the information either!

Humans are the weakest link!

- If you're not expecting an email with a link or attachment then delete it, or check via your phone.
- Watch out for sophisticated scams where “Microsoft” asks you to install a program, or someone calls about a recent payment.
- Watch out for believable emails from a colleague, or apparently from you to your finance director, requesting a money transfer.

Further advice is available at <https://www.getsafeonline.org/business/> and <https://www.cyberstreetwise.com/protect-your-business>

3.7 Customer research

How can we create even more successful businesses? Many things are important: if you don't keep an eye on costs and cash flow there might soon be no business left to develop. But when I develop research-based growth plans for small businesses, one thing contributes more than all the other research put together.



Ask your customers what they think

It's very simple but surprisingly few businesses do it.

- Call some of your recent clients, say you are trying improve your service to customers, and ask what they like about your product / service and what they don't like.
- Take notes as they talk.
- Write down word for word their praise (use them as client testimonials in your brochure or web site) and encourage them to be specific about what they don't like.
- Ask questions to get details and clarification.
- Don't justify or explain any problems – perception is reality. If there is a problem, deal with this at the end of the call by apologising (if appropriate) and explaining the action you will take.

You will probably be surprised at both the positive comments and their willingness to contribute. Most people don't like questionnaires but two open questions and an attentive listener will enhance their perception of you as a supplier.

Lost customers and prospects

It is also worth talking to your lost customers and lost prospects (enquiries that came to nothing). Tell them you realise there are many possible reasons for not going ahead with a purchase but that it would be really helpful to understand why it went no further.

For some, especially those selling through intermediaries, it may be more difficult to talk to end customers. But perhaps you can organise a product tasting in a retailer or attend a show.

Competitors

As well as customer research, keep in touch with what competitors are doing and in particular any changes in price. Do you still have a competitive offering? Are there any new competitors?

Price

Is your price structure still right? If you are worried that a price rise will lose business, soften it by adding new feature to the package (say an extended guarantee or a bigger pack) and / or offer existing customers a money off voucher.

CASE STUDY: On the hop

At the 2017 Oxford Farming Conference, Ali Capper told a story of transforming the hop market by collaborating with others, visiting trade shows, understanding the profile and interests of craft beer drinkers, listening to and educating the key hop trading companies, researching the 'Unique Selling Proposition' of British hops, developing a brand ("Brewed with British Hops"), selling the landscape and story as well as the product, growing exports, developing niche markets and constantly trialling new varieties and understanding market trends. As a result, they have moved from being a commodity provider to selling a premium product with a four-fold increase in margins. It was an inspiring account of the importance of listening to customers.

3.8 Strategy for growth

What is your audacious development plan for the coming year?

Four strategies

- **Market Penetration:** sell more of your existing products or services to existing customers. Think about who is buying and why. Are there distinct groups of customers? Can you sell more effectively by targeting each of these groups in a different way, giving each group a different, more focussed message?
- **Product Development:** sell new products to existing customers. You have great customers who really like you. What else can you sell to them? Do they have any related needs you can meet, increasing sales per customer?
- **Market Development:** sell existing products to a completely different group of customers. You have great products. Can you sell them to new customer groups? If you family holidays, is there also a couples version? Can you sell to sailors as well as walkers? Can you sell through a different sales channel, say on-line, or through agents, or through hotels (or other potential partner organisations)? Can you export?
- **Diversification:** develop new products to sell to new markets. This can be risky but it's often the basis for farm diversification, using the land resource as a starting point.



Of course these can be combined, for example, creating a premium version of your offering for a new upmarket segment.

CASE STUDY: Hideaway wives

A good example of all the above is The Hideaway Experience near Dundee. Caroline Millar and her husband Ross decided to diversify their 650 acre mixed arable farm and farm tourists as well. After researching the market they set up three luxury hideaways on their farm. They created packages for similar but distinct market segments: couples on honeymoon, or wanting a romantic weekend, or wanting to escape the kids. Caroline added some additional options such as food and drink, and full body massages. Along the way, she stumbled on a new customer group: wealthy Middle Eastern gentlemen. The bonus was that they were obliged to treat their wives fairly so a weekend with one required a weekend with the other(s): useful repeat business.

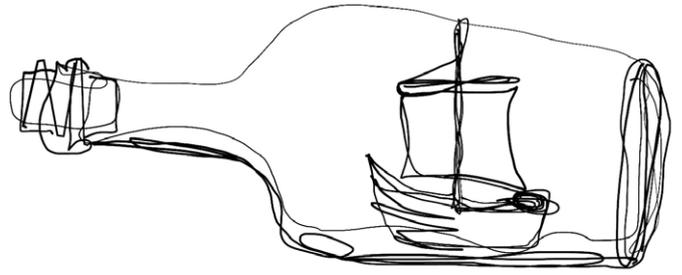
Benefitting from complaints

Most companies make mistakes and upset customers from time to time. But a well handled complain will leave the customer more likely to recommend you than before the problem. Good complaint handling builds trust.

- Let the customer explain the problem without interrupting or being defensive. Show you are listening (say "I see" and ask questions to clarify) and empathise.
- Ask any further questions but don't necessarily apologise unless it is clearly the company's fault.
- Explain exactly what you are going to do (talk to X, check out Y) and when you will get back to them (e.g. by 4pm today).
- Even if you don't have an answer, get back to them by this time.
- If you have made a mistake or are partly responsible, apologise unconditionally and be generous in your response to rectify the situation. An upset lost customer can be damaging.

3.9 Exporting

Now that your business has been successful in your country, how about exporting? This could be an area of profitable growth. There are lots of good reasons to export. Extending to new markets reduces risk, boosts local customer confidence and can create good PR as the media love positive business stories.



For UK businesses, despite everything, many parts of the world view the British brand very positively. British products are seen as high quality, innovative and trustworthy

How to start

A good common sense approach to research a market is simply to call users of your product or service in the potential market(s). Ask where they obtain these products, what they think of this supplier, and what would be a better offering for them. Then explore with the most favoured local distributors.

For some products and services, selling online is a good option. Internationalise your website, use the local country suffix, arrange translations by native speakers, and check the colours and pictures are appropriate for the target market.

Do consider working with others. Share the cost and increase impact.

There may be governmental support. The UK government is keen to help and at www.exportingisgreat.gov.uk there is a wealth of advice and support.

You might start by selling direct but longer term consider different options such as an agent or licensee; or your own local sales office.

Top tips

- Not everyone approaches business with your cultural mind set. So what seems sensible to us may be strange or offensive to others. Some of the local language helps.
- Attending trade shows is vital to explore, understand and connect with the main players in overseas markets.
- Listen to what customers want.
- Emphasise heritage and family stories.
- Use accreditations (Red Tractor, BRC, Food Standards, etc.) to build trust.
- Think about potential volumes – avoid creating a demand you cannot satisfy.
- Use social media such as Twitter and Facebook to give information and advice and gain a following.
- For food products, hand out free samples to get people talking about it.
- Try to identify and avoid time wasters - people who try to sell you the world.
- Don't try to go east and west at the same time if you want to get any sleep at night!

3.10 Selling your business

One day you may want to sell your business, for example to retire. This is best done with several years preparation. The best time to sell is when the intellectual property (IPR) is secure, the company is profitable and growing, the sector is growing and the stock market is rising.



Securing your Intellectual Property Rights (IPR)

Your brand, trademarks, design and patents (IPR) could be an important part of the value of your business.

- Conduct an intellectual property audit to identify all your IP assets.
- Some protection is automatic, e.g. copyright for writing, photography, and your internet pages.
- Trademark protection covers words, images and slogans. There are rules about what is unique and not misleading. Registering a trademark can be done online through the link below and costs £200.
- You can also register the design of a new product (appearance, shape, decoration, configuration) online through the link below at a cost of £50.
- Patents protect new inventions and are more complex. Seek the help of a specialist IP lawyer.

For more information and online applications (in the UK) see <https://www.gov.uk/government/organisations/intellectual-property-office>

CASE STUDY: Scuppered by the financial storm

I previously mentioned a business I founded to generate a pension fund. After a slow start the business grew to 20 staff and £2m sales and the three partners began to think about selling. Over 18 months, in discussion with an agency, we lined everything up for a trade sale in February 2008. Unfortunately, this turned out to be the low point of the stock market crash and we pulled back. However, I was personally keen to move on and set up another business. This caused much friction because we didn't have a shareholder agreement. The solution was to fix the value of much of my shareholding, so future increases in value would only accrue to my former partners. A couple of years later they agreed to buy me out from company profits over two years, meeting my original pension target.

Top tips

- Draw up a shareholders agreement before your company has any significant value and decide your exit strategy and timescales.
- Take professional advice and research business sales agencies.
- Prepare for a sale over several years to maximise the value of the company: sort out IPR and contracts so everything is in writing; develop staff so it's not dependent on you; and be able to show steady profitable growth.
- Remember your buyer may want you to continue for some time after the sale.
- Consider potential trade purchasers and build up a relationship with them.
- 'Earn out' may be a way to pass the business to a family member or staff.

Value and process

The value of the business is whatever a buyer is prepared to pay but typically two to five times EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). The actual multiple depends on perceived risk and projected growth. Net asset value and discounted cash flow (which means the current value of the expected future profits) are also factors.

The sales process typically includes:

- A valuation report and brochure / Information Memorandum
- Discreetly approaching potential buyers
- Buyer qualification and signing of a non-disclosure agreement
- Face to face meetings and negotiation
- Acceptance of offer and "Heads of Terms"
- 'Due Diligence' by the buyer (with others locked out at this point)
- Finally, the Sale and Purchase Agreement.

www.mindyourownbusiness.uk