ICAEW FINANCE & MANAGEMENT FACULTY

Growing your business

A FINANCE & MANAGEMENT REPORT

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This report is one of a series produced for faculty members. In each report we give a review of a topic within finance and management, offering both analysis of the relevant theory and a review of the practical application of appropriate management techniques.

If you have any comments or suggestions for future topics, please contact robert.russell@icaew.com

The information contained in this and previous issues of this publication is available (to faculty members only) on the faculty website at icaew.com/fmfac

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This report is provided free to members of the Finance and Management Faculty.

FOREWORD

GROWING YOUR BUSINESS

This report is primarily aimed at smaller businesses seeking to grow and develop and to achieve their full potential through practical guidance and advice. Those seeking additional advice might care to make use of an ICAEW Chartered Accountant, who is best placed to offer guidance.

The report will be useful to anyone in business, however, and we hope that all reading this will find it practical and interesting. We have covered most matters of immediate concern to those looking to develop their existing businesses, and there is also information of relevance to those that are just starting up.

We wish you the best of luck with your enterprise and hope you find this Finance and Management Faculty report helpful.

Please contact robert.russell@icaew.com if you have any questions or suggestions. These reports are produced quarterly and are sent to members of the Finance and Management Faculty. You can join the faculty at icaew.com/fmjoin or call +44 (0)1908 248 250. Cost for one year is from £92.

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BUSINESS ADVICE SERVICE

The ICAEW Business Advice Service is an easy way to access specialist guidance and reassurance on how to plan, start, manage or grow your business. You can start today with a straightforward, open discussion with an ICAEW Chartered Accountant. No catch, no obligation, no time wasting and there's no charge for the first session – just practical thinking to help your business succeed. One meeting and we're sure you'll notice the difference.

To find your local ICAEW firm, visit businessadviceservice.com. For further information, please contact bas@icaew.com

Growth vouchers
These vouchers offer 50% reimbursement of up to £2,000 for professional business advice. Your business must be based in England, have fewer than 50 employees, been in existence for at least a year and cannot have previously engaged consultants. Not all eligible businesses will receive a voucher. There are five areas of advice available for partial reimbursement, including:
- raising finance and managing cash flow;
- recruiting and developing staff;
- improving leadership and management skills;
- marketing, attracting and keeping customers; and
- making the most of digital technology.

For more information and to apply for growth vouchers, please visit www.gov.uk/apply-growth-vouchers

GROWING YOUR BUSINESS

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WHY THIS IS THE BEST TIME TO GROW A BUSINESS

Here **Emma Jones**, the founder of small business network Enterprise Nation, offers six reasons why this is the best time to grow a business in Britain, with two case studies.

Confidence in the economy is up and small businesses are feeling the buoyancy too. In a January 2014 Enterprise Nation survey, 84% of small business respondents confirmed an intention to grow their business over the next 12 months.

A record 4.9m small businesses are operating across the UK and many of them are harnessing tools for growth. The factors enabling this are summarised here.

> ‘ Large companies are realising the benefits of buying from innovative entrepreneurs ’

CASE STUDY: LABELS4KIDS.COM

From a base in Scotland, former accountant Anne-Maree Morrison sells her label products all over the globe.

‘ We started the business at the beginning of 2005, selling a wide range of labels; from vinyl to stick-on and sew-on labels. It was in 2008 that orders from overseas started to come in.

I wanted to see if orders would increase by having a site translated into the local language, so we had a site translated into German, French and Swedish. At the time, we were getting two orders per month from Germany, for example – it's now eight orders per day. Having a site in the local language made the world of difference and I haven't spent a penny on direct marketing abroad as customers find us through search engine results.

We sell to the US via the UK site at the moment but Italy and Portugal and a separate US site are about to go live. We accept payment across all the sites and in multiple currencies via Worldpay.

The business is run by four full-time employees, including myself, plus two interns for the summer and up to three freelance translators when they're needed.

We have ambitious plans to grow both our UK market and the international markets. I think we now have a really solid base for expansion with a state-of-the-art new website and a new office to support the growth. We don't envisage having to grow our administration base any larger than eight staff full time even with more sales from more countries. The future is looking very positive. ’

www.labels4kids.com

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Abundance of talent

Star talent and senior executives are leaving companies to become self-employed and it's small businesses who are benefiting from this shift as creative, financial, marketing and operational talent becomes available in a way not previously known to the small business owner. With years of experience and enviable contacts, these high-level and talented individuals are taking on roles in start-ups and growing businesses on a freelance or non-executive basis, making hires more realistic for the budget of the entrepreneurial class.

Affordable technology

Big servers and enterprise level technology may previously have been out of reach of small businesses but this has changed with the rise of cloud computing which essentially means you can have as much bandwidth as you need on a pay-as-you-go basis, without having to invest in pricey kit. Amazon Web Services is a prime example and many small businesses are using it to flexibly expand their hosting and online capability.

Cloud applications such as Evernote, Dropbox and Salesforce enable businesses to grow on a budget, and be mobile, meaning the company can be run from anywhere which may become important as trade is attracted from across borders (see global markets section).

Open procurement

The talent is available and technology expandable but there's no growth without sales and this is where there's good news for small business again. Sales channels are opening up in large organisations as government commits to procuring 25% of its products and services from small business, and large companies are realising the benefits of buying from innovative entrepreneurs.

We've seen this at first hand with our series of 'Exchange' events which match small businesses with buyers from large retailers. Successful events in the food and fashion sectors have seen buyers from the likes of Sainsbury's, Selfridges, Ocado, Shop Direct, Jaeger, House of Fraser and Superdrug outline how small businesses can pitch to them and secure deals.

The small business owner gets the benefit of access to a large volume of customers and the large company reaps the benefit of aligning its brand with fresh new talent. With these benefits in mind, we're looking to do much more work in this area, connecting small businesses with large organisations, and reporting on the resulting successes.

Access to finance

Small businesses need access to finance to grow and, as the banks have pulled back from lending, alternative

sources of funds have entered the market. According to the *Financial Times* on 29 July 'Peer-to-peer lending is on course to hit £1bn this year after the flow of funds doubled in the first six months of 2014'.

Growing businesses are turning to sites and brands such as Funding Circle, Crowdfunder, Market Invoice and iwoca to secure the capital they need.

Global markets

Over 2bn people are online across the globe and many are looking for the 'Made in Britain' brand. Growing markets in India, China, Europe and the US offer a tantalising opportunity to ambitious entrepreneurs.

With trade minister, Ian Livingston, going on record to state government agency UK Trade & Investment's (UKTI) focus as supporting medium-sized business, this has opened a gap to deliver support to small business.

This is one that Enterprise Nation is looking to fill in launching a 'Go Global' campaign in September, as part of the UK's biggest small business mission to New York. The campaign will have two aims – to encourage more businesses to enter new markets and support existing exporters to grow.

Advice to grow

To enable growth, support and advice is on hand. In January 2014, the government launched 'growth vouchers' as a £30m programme offering match spend to small businesses looking to access strategic advice to grow.

Enterprise Nation manages the Marketplace which is where small businesses with a voucher are directed to find an accredited adviser. The Marketplace is home to over 6,000 advisers, including more than 600 ICAEW members, with ICAEW having been a keen supporter of the programme.

Perfect conditions

Taken together, these factors create the perfect conditions for growth and ICAEW members have a critical role to play in this as trusted advisers to the small businesses of Britain.

' The 'Go Global' campaign will focus on building exports '

CASE STUDY: SECURELYBE

Beatriz Garcia-Martinez, founder of relocation specialist SecurelyBe, tells how she benefited from accessing a UK Government 'growth voucher' and strategic advice.

' I secured a growth voucher for the category of 'marketing, attracting and keeping customers' – the reason for applying was because I wanted clarity on my business mission and clients and to understand how to reach them via different marketing channels.

Redoing my business plan was crucial to see where SecurelyBe was going and to put metrics along the way. I also wanted to create a marketing plan to explore areas like SecurelyBe's brand, the marketing strategies to put in place and lastly to look at the growth strategy, delegation, taking people on, new products etc.

I started my search through the website's Marketplace section to find a London-based firm with a wide range of experience (social media, strategy, etc), plus I wanted a small company that could relate to my business. It took me a couple of days to short-list down to three companies and I set calls with all of them. Stuart Forrester was extremely empathic and he was talking about my business with the depth of somebody who has taken interest to know about a potential client. I felt understood and off we embarked on a very intense two months of meetings, reviews and action plans.

The first session with The Forrester Corporation was on 1 April, meeting every week for six weeks to keep the momentum going and giving enough time to evaluate and move forward.

The advice helped enormously and now I have a very clear view on who is my client, how to approach them and how to create the awareness of what we do at SecurelyBe. In short, this support has put me on the right track for growth. '

www.securelybe.com

SUPPORTING UK EXPORTERS OF GOODS AND SERVICES

UK Export Finance (UKEF) helps UK exporters of all sizes to sell their goods and services overseas. Here **Paul Croucher** sets out the range of finance and support options available.

Our remit at UKEF is to support UK trade by sharing risks, but only when the private sector finance and insurance market is unable to provide full support.

Exporters will often go to their bank or to specialist financial organisations to help them get finance, and to credit insurers to secure insurance against the risk of not being paid. But if these private sources are unable to take the risks, UKEF may be able to assist.

We can also step in and support small companies in a situation where an important contract proves too small for private underwriters to assume risk.

UKEF products and services are available for over 200 overseas markets, with the exceptions usually being very high-risk countries, often in developing regions. In essence, we provide insurance to exporters to cover against the risks of non-payment; and guarantees to banks to assist them in making export finance loans or bonding commitments. We can also make loans to overseas buyers of goods and services from the UK.

‘ We can consider support for all exporters, large and small... whether they are goods or services ’

We have become increasingly active as the UK economy pulls away from the 2008 financial crisis. In our latest financial year, ending on 31 March 2014, we backed 619 facilities, around two thirds more than in our 2012-13 year, involving 130 British exporters, which were selling to a broad range of overseas markets. Individual support per case ranged from £10,000 to £500m, assisting companies ranging from micro-exporters to multinationals.

We can consider support for all exporters, large and small, and all types of UK exports, whether they are goods or services. In recent years we have supported business in the aerospace, automotive, construction, healthcare, industrial processing, oil and gas, petrochemical, water treatment, and satellite sectors.

When exporters require finance, in situations where commercial banks and insurers cannot provide support, one of the easiest ways to check whether we can help is by using our helpline (details at the end of this article), or contacting UKEF’s regional advisers. Our network of export finance advisers (EFAs) across the country increased to 21 during the 2013-14 year. They act as a point of contact locally to support both existing exporters and businesses with export potential by pointing them to banks, credit insurers, brokers, trade support bodies and sources of government support.

CASE STUDY: TECHFLOW MARINE

In February 2013, the Northumberland-based Techflow Marine won a US$5.8m contract to provide the Chinese National Offshore Oil Corporation (CNOOC) with a custom-made oil tanker offloading system, comprising its specialised hose reels. This was Techflow Marine’s biggest-ever Chinese contract. As soon as it placed the order, it was asked to provide a performance bond. In the past, the company had provided 100% cash cover for smaller performance bonds, but had been forced to turn very large contracts down as their size would have restricted cash flow, holding back other business.

Techflow Marine got in touch in February 2013 for help with funding the performance bond. We suggested the Bond Support Scheme. With advice from the exporter’s bank, we agreed in June 2013 to guarantee a proportion of the bond so that Techflow Marine only had to provide a reduced cash cover to secure the bond.

Once the bond was secured, the company was able to ask CNOOC for the first of its stage payments, and to deploy the freed-up funds to take on additional work worth up to $12m. Without the Bond Support Scheme, the CNOOC contract would have proved too large for Techflow.

Paul Croucher is head of trade finance and insurance solutions at UK Export Finance. www.gov.uk/uk-export-finance

UKEF products and services

Our local export finance advisers can advise on which of UKEF’s products and services might suit a company’s business, but the following list explains most of the options.

Export insurance policy (EXIP)

Available to any exporter based in the UK who wants cover against not being paid by an overseas buyer. Our EXIP has a minimum premium of £250, covers contracts of any value, and can be accessed by applying directly to UK Export Finance, or via an insurance broker.

Bond insurance policy

Available to UK-based exporters seeking to protect against an overseas buyer making a call against a bond issued by a bank. This may be an ‘unfair calling’ or a ‘fair calling’ where that is due to political events. Cover can be provided for most types of contract bond but is not available for tender or bid bonds. The

> ‘ We have become increasingly active as the UK economy pulls away from the 2008 financial crisis ’

bond can be of any value or duration, and the insurance policy can be accessed by applying directly to UK Export Finance, or via an insurance broker.

Bond support scheme

Available to UK-based exporters through participating trade finance providers. The scheme helps the exporter raise bonds from their banks, by offering partial guarantees (up to 80%) to banks issuing advance payment, progress payment or other contract bonds in relation to UK exports. This can result in more working capital being available for the exporter. The scheme can be accessed via a participating finance provider (there is a list on our website).

Export working capital scheme

Available through participating banks. It assists exporters based in the UK with cash flow, by helping them access pre- and post-shipment working capital for specific export contracts. UKEF can provide a guarantee (up to 80%) to the lending bank for loans of any value. The scheme can be accessed via a participating finance provider (there is a list on our website).

Letter of credit guarantee scheme

Available to participating banks that confirm letters of credit issued in favour of UK exporters. It covers the bank against the risk of not being reimbursed by the overseas issuing bank. The scheme has no minimum or maximum value, and is accessed through banks participating in the scheme. UKEF covers up to 90% of the value of the letter of credit.

Lines of credit, buyer credit facilities and supplier credit financing (SCF) facilities

These three options guarantee medium- and long-term loans of two years or more to finance UK exports up to 85% of the contract value. Under these options, applications need to be supported by a financing bank. SCF facilities are the most suitable of these products for SMEs, allowing the exporter to be paid as soon as the capital goods are shipped or the services are performed.

Export refinancing facility

This lowers the cost to foreign buyers and project sponsors in emerging markets who require bank loans in excess of £50m to purchase UK capital goods and services.

Direct lending facility

We can lend directly to an overseas buyer, at the lowest rate allowed by the OECD, to finance the purchase of capital goods and/or services, via our Direct Lending Facility. DLF loans cover up to 85% of a contract’s value, and have no fixed upper or lower limits.

CASE STUDY: ATTACH & SECURE

Belfast-based Attach & Secure sells lanyards to the prison and police services to keep keys and passes secure, and to construction industries to prevent tools falling to the ground. In November 2012, when Attach & Secure won its first overseas contract, a £115,000 deal to supply a Middle Eastern military division with lanyards, it was asked to put up an advance payment bond. This would have significantly restricted its cash flow, given that the company’s 2013 turnover was £160,000.

The client wanted to make its 50% up-front payment with a letter of credit, and so required an advance payment bond worth almost £60,000. Given that Attach & Secure’s bank was asking for 100% cash cover on the bond, this would have left the company with very little cash flow during the contract. Because it lacked a sufficient trading track record to negotiate better terms from the client or the bank, it was looking at using personal assets as security.

Attach & Secure approached its local Export Finance Adviser for alternatives. After discussing options with UKEF, the exporter was able to structure its arrangements with overseas buyers to enable it to perform the export contract. This allowed it to maintain a steady cash flow and reduce its risk exposure. Eventually, the company agreed with its client to arrange a four-part order. 50% of the value of each batch was paid up-front, with the balance and 50% of the next batch being paid upon delivery. Attach & Secure eventually received another order from the client, and hopes to turn over £250,000 in 2014.

UKEF REMIT ALIGNS WITH NATIONAL EXPORT CHALLENGE

UK Export Finance (UKEF) is the operating name used by the Export Credits Guarantee Department, the UK’s export credit agency. We have been active for 95 years by supporting exports to overseas markets across the world. We employ around 200 staff, mainly at our headquarters in London, and we are a key government department in the context of Prime Minister David Cameron’s National Export Challenge. This is targeting an increase in UK exports to £1 trillion by 2020, when the aim is that 25% of UK firms will be exporting, including large numbers of small- and medium-sized exporters (SMEs).

If you are finding it difficult to get the support you need from your bank, we would encourage you to suggest the use of these schemes or, if necessary, to contact your EFA or UKEF directly. Their helpline number is +44 (0)20 7271 8010, and email address is customer.service@ukef.gsi.gov.uk

NOTHING VENTURED, NOTHING GAINED

Of the many routes to securing funds for business development, the venture capital industry is one of the most traditional and well-tested, as **Keith Arundale** reports.

Despite some rumours to the contrary, venture capital is alive and well in today's financing climate. Recent data from the British Venture Capital and Private Equity Association (BVCA, which is the industry body and public policy advocate in this field in the UK) shows that some £343m of venture capital was invested in 431 companies in 2012, a similar amount to that invested in the previous year. 64% of this money was invested in ventures at the seed, start-up and early stages with 36% invested in later stage ventures. The average amount invested at the venture capital stages taken together was just short of £800,000.

While venture capital represents just 6% of the total amount invested by UK private equity firms, with the vast majority of private equity going into management buy-outs and buy-ins (46%) and expansion/growth capital (26%) the data shows that there is indeed money available for start-up and fast growth businesses in the UK that meet venture capital firms' investment criteria. This is despite some former venture capital firms, such as 3i, having refocused their investments away from the early-stage part of the asset class to concentrate on growth capital and management buy-outs.

Latest available data from the BVCA shows that the performance of venture capital funds has been improving. Venture funds formed from 2002 onwards have returned on average 5.9% per annum since inception of the funds to 31 December 2013. This compares to a negative performance of -1.3% per annum for venture funds formed between 1996 and 2001 (corresponding to the 'dot com' boom period) and to 14.1% per annum for the private equity asset class as a whole. However individual venture funds have produced huge returns, far in excess of these figures, reflecting the high-risk 'home run' nature of venture investing whereby outlier investments like an eBay or Facebook return the fund many times whereas other investments fail to recover their costs.

' If you are an entrepreneur or management team seeking finance to start up or expand your business you should first of all maximise any internal sources of finance '

The pros (and some cons) of venture capital finance

So where does venture capital fit into the financing cycle for early-stage, high-growth potential businesses?

If you are an entrepreneur or management team seeking finance to start up or expand your business you should first of all maximise any internal sources of finance, eg by improving working capital management, then seek capital from the so-called 'friends, family and fools', research the possibilities for bank finance, which for many ventures will simply not be available to you, and look into equity finance from wealthy individuals and business angel networks.

Also consider equity crowdfunding and any government finance that might be available to you. A good starting point in weighing up the sources of finance available to you is the *Business Finance Guide* which has just been published by ICAEW's Corporate Finance Faculty and the British Business Bank.

Venture capital (VC) finance should not, however, always be considered as finance of last resort. It does have several advantages:

- it provides a solid capital base for the future, to meet growth and development plans (VC funds usually reserve monies for follow-on investments);
- there is no repayment during the term of investment;
- there are no interest costs;
- it entails a business partnership with the VC fund, sharing the risks and rewards and benefiting from its advice and expertise;
- no charges on business assets are needed;
- no personal guarantees are required; and
- if the business runs into difficulties, the VC firm will work to help the company turn this around if possible.

On the downside you will have to give up some of the equity in your business and the venture capital firm may well insist on veto rights over major decisions in your business (even if the firm does not actually control your business through equity ownership).

Approaching a venture capital firm

Having decided on venture capital financing for your business, how do you go about approaching a venture capital firm? You will need a business plan which sets out your business model, formally assesses the market needs and competition, reviews the business' strengths and weaknesses, identifies the critical success factors and explains the strategy, tactics and actions to achieve

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profitable growth. The business plan does not need to be, and should not be, a huge document. In addition to setting out the strategy for your business and indicating the amount of finance you require based on as realistic cash flow projections as possible for an early-stage business, its main purpose in the finance raising process is to secure an initial meeting with the venture capital firm.

Do be selective in which VC firms you approach. Avoid the 'scattergun' effect. Only approach those where your investment proposition meets their investment criteria. Venture capital firms receive around 1,500 propositions a year and maybe invest in just one or two.

An introduction from one of their portfolio companies or from a trusted adviser is preferable to sending in plans cold. The BVCA publishes a Directory of Members which lists the investment criteria (preferred investment stage, industry sector and geographic focus) of member private equity and venture capital firms so this can be a good starting point if you don't have any mutual contacts that can refer you.

Evaluating the investment proposition

If the venture capital firm executive who reviews your plan is sufficiently interested in your proposition then he or she will certainly want to meet with you and your team. They will be evaluating factors such as those set out in the box, above right.

The venture capital firm executive will make initial enquiries with existing and potential customers, industry bodies and sector specialists as necessary and will check out the team's CVs. Many VC firms these days have operating and even entrepreneurial experience in the sectors in which they invest and are not wholly from financial and investment backgrounds.

They have well-developed networks of sector experts and can pick up the phone to corporates, university professors, market experts and their existing and previous portfolio companies to check out technologies and trends. From their in-depth experience in the sectors and from meeting many other aspiring entrepreneurs they have formed their own views on market needs and growth potential.

Friendly, or not so friendly, term sheets

Assuming satisfactory answers to their inquiries and the above questions, which may well involve you in a series of meetings with the venture capital firm executive and even a presentation to the entire partnership, you may receive an offer letter (term sheet) setting out the terms on which the venture capital firm is prepared to make an investment in your business.

To do this they will have arrived at a valuation for your business using your projections, their sensitivity analyses on these projections, their recalculations and discussions with you. The term sheet will usually include many of the following areas:

- the amount to be invested, instruments (eg convertible preferred shares), valuation, capital structure;
- liquidation preferences, dividend rights, conversion rights, anti-dilution protection, redemption rights, lock-ups, pre-emption rights;
- board composition, consent rights, information rights;
- warranties, vesting, option pool, milestones; and
- confidentiality, exclusivity, fees (who bears the costs of due diligence etc), conditions precedent.

Bear in mind that the term sheet is a letter of intent, it outlines the framework for the final deal but is not

KEY QUESTIONS TO ASK BEFORE SEEKING VC FUNDING

- Is the product or service commercially viable?
- Are you solving a big problem?
- Is your solution unique?
- Is there potential for rapid and sustained growth to take a market-leading position?
- Do you and your team have the ability to exploit the potential?
- Have you already built up credible momentum with customers?
- Do you and your team have the ability to control the business through the growth stages?
- Does the possible reward for the VC firm justify the undoubted risk?
- Does the anticipated financial return on the investment meet the firm's investment criteria?

> ‘ Take advantage of all they have to offer, other than the money, including access to their networks ’

binding, except for confidentiality, exclusivity and fees. It is entirely negotiable, representing the VC funds preferred terms and is incorporated into the shareholders’ agreement at the end of negotiations prior to deal completion.

The terms will be proportionately more ‘entrepreneur friendly’ or ‘investor friendly’ depending on how keen the VC firm is to do the deal, how much competition there is from other VC firms and the amount of money there is washing around in the system (for venture deals generally not too much!).

So, for example, onerous liquidation preferences and dividend rights would not appear in an ‘entrepreneurially friendly’ term sheet. A number of early-stage VC firms have signed up to a standard form of term sheet and some include proformas on their websites.

Do obtain term sheets from a number of venture capital firms if you can, shop around, take the best terms for you – but do also bear in mind that the chemistry between you and the investment executive that you will be working with is also hugely important. You will be working with these guys for a number of years so there needs to be absolute trust between you and the VC firm and continual communication facilitating no surprises on either side. Take advantage of all they have to offer, other than the money, including access to their networks maybe to help you expand overseas, access to other VC firms and corporate venturers (who are increasingly financing both early- and later-stage ventures) via syndicates for further rounds of finance, access to strategic partners and acquisition targets, help with exit strategies, personal mentoring and a sounding board for strategic and other decisions.

And so to completion

Once you have accepted a term sheet you agree not to deal with other venture capital firms in your current financing round (the exclusivity provision). This allows the VC firm to conduct any external due diligence as necessary to supplement their preliminary enquiries. Formal legal and any intellectual property due diligence will almost certainly be included here.

Depending on the results of this external due diligence the VC firm will either complete the deal, seek to renegotiate the terms of the deal or in the worst case abort the deal.

Assuming all goes ahead the shareholders’ (subscription) agreement, investors’ rights agreement, warranties and indemnities, directors’ service contracts etc will be finalised and you can embark on the growth phase of your business, now suitably financed, living in a close working relationship with your VC investor until exit.

For more information on the venture capital investment process, see the BVCA’s *Guide to Private Equity* written by Keith Arundale available for download at www.bvca.co.uk

FUND-RAISING NOTES

Asset finance

Businesses need to invest in assets of various kinds, from plant, equipment and vehicles to computer hardware and software. These can be expensive, so there are various ways to ease the pressure on your cash flow by spreading the payment over time. The main options are through hire purchase and leasing.

According to the website startups.co.uk, with leasing, you are paying for use of the asset and you do not own it at any time. ‘You are not usually required to provide a deposit. Leasing is simply paying monthly to make use of an asset. You will be tied in for a certain period of time, anything from one month to two years.’ You can renew the lease at the end of the contract. You may be able to update to the latest version of the asset and there may be a service package included with the lease.

For hire purchase, once the contract is fulfilled over a period of monthly payments, you are the owner of the asset. You are likely to be charged a deposit of perhaps 10% or 20% of the asset’s value. For more, see startups.co.uk/what-is-asset-finance

Angel investors

Finding private sources of finance can be useful to a small business, particularly where a personal touch can be advantageous. People who invest their own funds into start-ups or early-stage visitors are known as ‘angel investors’. According to the UK Business Angels Association, ‘they usually take shares in return for providing equity finance and seek to use their own experience and contacts to support the growth of the business’. These investors can invest on their own, but frequently choose to invest in syndicates, enabling them to pool their finance and knowledge, where they can take the lead or a more passive role. To find out more, see www.ukbusinessangelsassociation.org.uk

Bank loans

Your bank may be the best immediate source of funding and information about finance possibilities through overdrafts, loans and other means – you will need a good relationship with your bank, whatever you do, so sound them out first!

CROWD FUNDING OR PEER-TO-PEER LENDING – WHICH IS BETTER?

Alternatives to traditional bank finance have become more popular with the growth of the internet. Here **Becky Armitage** outlines the merits of two new funding approaches.

Crowdfunding and peer-to-peer lending are two innovative ways to get money into your business. They've been making headlines over the past few years and it's fair to say that you'll have had to have been hiding under a rock for you to not have heard of at least one of them!

A lot of people don't realise that these are two very different beasts; both share the same principle of raising finance from a number of people who pool together, but it's likely that one will better suit your business needs, depending on what stage your business is at.

Crowdfunding

If you've got a great idea and need some help getting it off the ground, crowdfunding is for you. It is a great option for start-ups and early-stage businesses. You 'pitch' your idea or business to potential supporters, and if interested, they will contribute a sum to the proposed venture. Then you decide how you want to reward them.

Crowdfunding in its earliest form focused on helping entrepreneurial creatives and inventors. The people who chipped in and made their dreams a reality were then given something in return, like a unique perk, a gift, or first offer on their product. This is 'reward-based' crowdfunding – one to consider if you've got a cool little gadget you want to develop. Kickstarter (kickstarter.com) is the world's largest reward-based crowdfunder, and has just passed the milestone of $1bn pledged; $54m of that has come from the UK.

Like all new things, the concept of crowdfunding has evolved into different forms, with 'investment' crowdfunding now starting to grow rapidly. In this model, instead of giving a reward to those who helped, you give them equity in your business. Key UK proponents of this concept are Seedrs (seedrs.com) and Crowdcube (crowdcube.com).

Crowdfunding platforms will typically want to see a business plan and forecasts from you when you make your application, so it's important you get these in order.

If you did want to go down the investment route and release equity in your business, there are quite a few legal steps that you'll need to deal with and you'll also need to make sure you keep your shareholders informed about your plans at all stages. To help you get started, Nesta, an independent charity (nesta.org.uk), have some general crowdfunding tips, from pre-launch to how to tell your story. *Entrepreneur* (entrepreneur.com/article/229436) also provides five steps to crowdfunding success, placing importance on interaction with your supporters and considering feedback.

‘ Peer-to-peer lending is a fast and accessible way of getting a cash injection into your business ’

Peer-to-peer lending

Peer-to-peer lending is a fast and accessible way of getting a cash injection into your business. The essential difference between this and investment crowdfunding is that you do not give away any equity, but rather pay interest on the money you borrow, much like you would with a bank. Whether your loan is for equipment for your factory, purchasing a property, buying stock or even for working capital, peer-to-peer lending for businesses offers an accessible and flexible way of getting finance for established businesses.

Peer-to-peer loans are usually funded by a number of different people, and in the case of Funding Circle (fundingcircle.com), you'll also have your loan funded by local councils, Huddersfield University and the government-backed British Business Bank programme (currently run directly by the Department for Business, Innovation and Skills – see british-business-bank.co.uk). These are a viable alternative to traditional funders, as you can apply for loans up to £1m in the case of Funding Circle and £3m for ThinCats (thincats.com), repayable over terms of up to five years.

Peer-to-peer lending is suitable for all established business, including limited companies, limited liability partnerships and non-limited companies, generally trading for at least two years or more. As part of the application, you'll have to provide your business's financials (filed accounts or equivalent) and reasons why your business needs a loan.

It's worth noting that, depending on the size of the loan you're after, security in some form will be required. This could either be a personal guarantee or they may take security of a particular asset or assets in your business. You should check when you apply, as each platform will have different policies.

Which would work better for my business?

In a nutshell, if you have a great idea that's yet to get off the ground, then go for crowdfunding. But, if your business is well established and you're looking for a business loan, then you'd be better suited to one of the peer-to-peer lending platforms. It is important to evaluate the pros and cons of each model before you decide.

Recently, a group of alternative business funders met to launch a web portal designed to help you find the most appropriate source of funding – www.alternativebusinessfunding.co.uk

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BRANDING, DESIGN AND THE POWER OF ASSOCIATION

Innovative product design and strong brand management can make a huge difference to a business, argues **Helen Lazarus** with three case studies.

The words brand and branding are thrown around liberally by all sorts of people in different contexts and with different meanings in mind, so it may help to start by asking: what exactly is a brand?

In short, a brand is a set of associations that a person – or group of people – makes with a company, product, service, individual or organisation. In extension then, branding is the attempt to generate, influence and control these associations to help the business perform better. An organisation can benefit enormously by creating a brand that presents the company as distinctive, trusted, exciting, reliable or other attributes appropriate to that business. It is the intelligent use of design that can help you to control your brand.

Looking at organisations that have gone through the Design Council's business support programme, I will attempt to cover three major aspects of branding and why they are important for your organisation to consider. These are:

- credibility;
- vision; and
- focus.

Credibility

Even if your product is the best on the market, if your brand does not suit your product your intended audience will not see the full value of its appeal. The credibility of your brand's offer must also be solid, and this comes from an understanding of the identity you want to portray.

Naylor Industries

When Naylor Industries, a Barnsley-based, family-run manufacturer of building materials, came to us for business support, our initial work with them revealed the company's legacy of quality products and service. It also highlighted a lack of coherent branding that could be used to show off this heritage.

At the time, Naylor was developing a new product line, a range of terracotta pots. However, the brand itself was associated with drainage and building materials, and was not an appropriate company to start marketing a range of beautiful pottery.

'We needed to understand the strengths we already had, and what we stood for as a business,' explained chief executive Edward Naylor. With that in mind, the company created a new brand called Yorkshire Flowerpots. This had its own tone of voice, personality and visual identity so that it could sell the products with greater credibility.

Yorkshire Flowerpots' success depended on innovative product design and effectively telling their story of traditional, British-made high-quality products. New marketing materials were produced and Yorkshire Flowerpots launched in 2006. Annual sales of the range grew rapidly, to £6m by 2012, and its stand-alone identity allowed it to flourish out of the shadow of its industrial roots.

> ' Generating a vision for your company means thinking about the future, where you want to be, and looking at ways to challenge the market or transform a sector '

Vision

Branding can also be representative of your organisation's vision. Generating a vision for your company means thinking about the future, where you want to be, and ways to challenge the market or transform a sector. That vision may involve large-scale upheaval or be something as simple as offering an existing product in a new way. If you're clear on what you're aiming at, it's easier to put the structures in place to get there.

Discovery Yachts

Discovery Yachts is a thriving, family-owned builder of top-class, blue-water yachts designed for extended cruising. Former managing director Nigel Stuart heard about our business support programme while exploring ways to grow the company. 'There was a view within the business that design was just about products and logos. However, there was an awareness, too, that you don't just buy an Aston Martin because it has a pretty bonnet badge,' he explained.

Our initial analysis of the company highlighted a lack of focus by the management team on Discovery Yachts' brand communications due to a preoccupation with day-to-day business and securing the next sale. As a result, there was no clear understanding of why customers bought the company's products in the first place, and marketing materials were out of step with the boats' cutting edge quality and design.

The priority was to build internal understanding of the company's strengths, market positioning and future ambitions and strengthen the company's branding. We needed to reposition Discovery Yachts as a more aspirational, international lifestyle brand focused around its high-quality products.

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Not so long ago, Discovery Yachts described itself as a small, family-owned Southampton-based business. Now, it talks of being an enterprising British company in pursuit of perfection and one of the last few British yacht builders – also accurate, but the difference in tone and intent is clear.

The rebranding helped grow turnover – from £6m in 2009 to £8.3m in 2011. The company now has an ongoing commitment to design: not as a cost, but as a business investment.

Stuart explained: 'The money that was spent on brand guidelines made everything that came after cheaper because communications materials can be produced faster, more consistently and more efficiently. The company's understanding of the strategic potential of design changed dramatically through first-hand experience of how it can create, communicate and get people to buy into who you are and what you stand for.'

Focus

If you have a number of different products or services it may help to consider how you can streamline or organise them to make the offer easy for consumers to understand. Rationalisation of products or services might also allow you to focus your investments more efficiently.

Building success at Discovery Yachts

Challs

Back in 2001, Challs, producer of household cleaning and unblocking products, was struggling for retail shelf space in the face of fierce competition from larger, multinational competitors.

'We were a small business fighting for survival in a highly competitive marketplace dominated by giants,' managing director Graham Burchell explained.

The Design Council's first step was to work with the management team to analyse the company's business and its product portfolio. This highlighted some important issues – notably, that Challs' on-shelf presence was less coherent than its competitors' and some of the products the company was spending time on weren't making much money.

Challs' management team decided to focus on the business' strongest product range – Buster. All but four Buster products were either discontinued or moved into another Challs brand, leaving Buster to focus on cleaning and unblocking household plugholes and drains.

The company then invested an initial £40,000 – a year's profits at the time – in a design project to clarify the Buster brand's personality and positioning and redesign the products to stand out better on-shelf, including new graphic concepts and packaging.

The new Buster range enjoyed 35% sales growth in 2005. Annual growth rates of 50% and 25% followed as Tesco, Asda, Aldi and Lidl agreed to stock the product for the first time.

Challs has transformed its business through significant and strategic investment in brand design. Between 2009 and 2011, its annual turnover tripled to £5.5m – an achievement Burchell puts down to its portfolio of innovative, design-led brands and an ambitious new product development strategy.

More recently Challs works with a selection of design agencies: 'We spent £100,000 on design in 2011 and plan to spend a further £300,000 in 2012 – a huge percentage of our turnover – because we see design as a powerful growth engine,' Burchell adds. 'Design plays a central role in our forward planning, too, because of the need to constantly innovate with new packaging formats and new products.'

In conclusion

Successful branding is an organisation-wide ethos that should be reflected in everything your organisation does. It can convey messages, focus your goals and redefine what you stand for. Once you have that brand in place it can be a vital, powerful tool to build and sustain success.

All you need to do is deliver on your promises.

This is an abridged version of the Design Council's guide to *The Power of Branding*, which you can find at: www.designcouncil.org.uk/news-opinion/power-branding

THE IMPORTANCE OF BRANDING IN PROFESSIONAL SERVICES

Services firms and consultants need to focus on their brand, just as consumer product businesses do. **Simon Black** sets out the approach to take when differentiating yourself.

Let me lead with my chin on this one. We all make most of our choices based on emotional needs and wants and then back those decisions up with rational thinking. Anathema! Nobody likes to think of themselves and their actions in this way. Some even consider this assertion vaguely offensive! Sorry about that. That's how branding works, even in the world of professional services; we choose and then we justify.

I'm a fairly rational guy. I don't like to think I waste money. I'm pretty well educated in the sciences and psychology. I know what motivates marketers and those who own and run businesses and brands. Lord knows, I spend my time devising or revising stories for brands to tell to their audiences – so I must have the inside track; some better framework for making my shopping choices. But no. I make the same daft decisions as the rest of us. 'Two for one' offers for products that I don't need, even 'three for twos' that I definitely won't get through in a year's worth of deodorising or whatever it is that Boots is promoting.

I spend more money on a watch than is strictly necessary and let's face it, any money on a watch is more than is needed. The phone tells the time these days perfectly well – better than almost all watches actually! So, take a look at your wrist before dismissing branding as the fluffy stuff that is irrelevant. None of us are immune.

Rational choices

Surely, in the context of a business-to-business or a work environment we make more rational decisions? Surely there, we have objective judgement criteria about the companies we choose to work with and the contracts that we sign? Yes, indeed we do. However, (and you know what's coming next) why then are millions spent annually on entertainment of our clients and on branding, design, identity management, advertising and PR?

Because although it is certainly a more rational arena than the 'domestic' world, professional services companies and organisations need to be chosen in an increasingly well-informed marketplace of price parity and well-written reviews. The brand is there to open the doors in the first place. Your chance to gain traction before the rational stuff kicks in.

I don't want to overplay the role of the brand in being the single defining characteristic of a well-managed and successful business, but I would of course support the assertion that successful businesses more often have a well-managed brand than those who are underperforming the market. So what does a well-managed brand do for the business and why exactly should you invest in it?

More than a logo

A strong brand at best can open doors that otherwise only open for others! It can act as a herald for the type of business you are, indeed who you are and why and in what way you are different and perhaps even better than some of your competitors. We all make judgements about the brands we see around us and it is no different for your brand and for that matter the way you judge fellow companies and their services.

Think of the brand as the story of the business. It's not just the logo, or the identity but what the company stands for and of course how it stands out. There will be many studies into how and why companies chose their accounting partners and much of that will be about matching expertise and needs at the right price and with the right style of service. The brand can help you communicate many of the aspects of what your current and future clients are looking to buy. None of this is news to many of you. My challenge to many professional service businesses is whether owners put enough effort into creating the brand's identity and further into keeping it relevant in an ever-changing and challenging business environment.

The brand is more than a logo. The brand exists across a number of touch-points such as advertising, corporate identity materials and of course in the digital space also. The opportunity to tell your story through the identity and across the brand world is an important one to grasp consciously. So many companies establish a logo and 'look and feel' in terms of some basic creative ingredients such as a few photos and type font etc. and think job done … we have a name, a logo and a consistent way of presenting ourselves! Great. Behaviours and actions of your staff are primary in helping deliver the brand

' Think of the brand as the story of the business. It's not just the logo, or the identity but what the company stands for and of course how it stands out '

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> ‘ Write down in what ways you are the same as – and in what ways different from – your competitors ’

experience consistently and in line with the ethos and personality of the company.

We are in a better place than we were 30 years ago, that’s for sure. But it is really great when all the creative ingredients, from name and photography through to the events and tone of voice of the organisation add up to something true, unique and ownable in the sector.

Only when you have these three boxes ticked can you begin to expect any return on the money spent to capture and tell your story in an imaginative way to the audiences you need to, matching against a need that you have clearly identified and a clearly articulated point of view about how you are answering that need!

Beginnings of a brand

Take a moment to think of your competitor set. Could be a simple list of the five local firms you have worked alongside for quite some time … could be a few consultants who trade in your area … or it could be a major firm. Write down in what ways you are the same as – and in what ways different from – your competitors. From these lists, make a note of the most important things you would want to make sure you tell your clients and target clients. Hey presto, you have the beginnings of a brand brief.

I always choose a professional for my accounting needs, and it’s a good rule of thumb that I pretty much get what I pay for … the same goes for the creative industries.

Pay for a decent agency team to interpret your brief and build a creative story. Give it the attention it deserves and be collaborative with the team – of course they know more about creativity than you do, but you know more about your business than they do. If each play to their strengths you have the makings of a strong outcome.

Given that all phones tell the time, choosing a watch isn’t about time at all! What are the real factors when it comes to clients choosing your organisation? Is it relationships? Is it your style and personality? Is it service levels? What is it? Then deliver it and tell the story with your brand and marketing!

Final thought … if it isn’t communicated, it doesn’t exist!

WEBSITE AND SOCIAL MEDIA NOTES

Your website strategy

ICAEW has a four-page *Directors’ Briefing* on how to set up and manage a website, which will be an essential part of your branding and marketing strategy.

The document ‘Your website strategy’ is a PDF downloadable from icaew.com. Search online for ‘ICAEW IT17COMP’.

The briefing explains that you can reach new customers and improve communications with existing customers through a website. You can also sell online, use forums or blogs to solicit feedback and show the individuals behind your business.

Once your website is set up, the space you use within that website is effectively free. Whenever you have an idea that involves putting out extra information to help your customers, suppliers or employees, you can try it at no cost.

Social media

For many entrepreneurs and businesses of all sizes, social media tools such as Twitter, Facebook, LinkedIn and many others have become an essential part of the marketing mix.

According to Abi Wright, the co-founder and director of the successful start-up Spabreaks.com, ‘social media is the most powerful tool we have – it is an extremely important part of our marketing, keeping in touch with customers and communicating our ideas and initiatives.’

The *Guardian* reports that a recent study by the Internet Advertising Bureau UK found that nearly 80% of consumers would be more inclined to buy more often in the future because of a brand's presence on social media. For a guide on starting with social media, search online for ‘Guardian social media business tips’.

HOW MARKETING CAN HELP YOUR BUSINESS GROW

A business does not exist without customers, so the building of a strong customer base requires a well-devised marketing strategy, as **Luan Wise** sets out below.

Marketing is fundamental to business growth. It provides direction, it provides measurement and, most importantly, it drives sales.

The Chartered Institute of Marketing (CIM) offers the following definition: 'Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably.'

This clearly puts the customer at the heart of everything. Understanding who your customer is and what they need/want from your business is the key to success (but don't forget the word 'profit'!).

Don't start anything without a plan

'If you don't know where you are going, any road will get you there.' This Lewis Carroll quote raises a valid question: how do you get 'there', when you don't know where 'there' is?

Effective marketing begins with strategy: understanding where you are now, where you want to be, and how to get there.

Research your marketplace, know who your competitors are and understand your business's strengths and weaknesses. Taking the time to audit your current position will ensure you are aware of the opportunities, threats and other issues such as the effects of legislation. Make sure you repeat this research regularly to stay up to date.

Know what success looks like before you begin anything. Only then can you know you have arrived (or tweak the plan to ensure you stay on track).

Traditional growth strategies

Businesses need to understand what type of growth they want – it may not simply be a matter of scale; it might be about improving quality or profitability.

As an example the selection criteria for the *1000 Companies to Inspire Britain* report (2013) by the London Stock Exchange required companies to have shown not just growing revenue over at least three of the past four years, but also to have outperformed their sector peers – not just in terms of revenue, but by either growth in employee numbers, square footage or number of filed patents, too.

Also, a strategic plan for growth clearly needs to be long term. In 1957 H. Igor Ansoff created the 'Product-Market Matrix' – possibly one of the most important strategic marketing planning models (see box on the opposite page). The matrix helps companies review the options for growth by showing alternatives for new markets and types of products and services.

All too often, businesses seeking growth focus on lead generation – looking for new customers. Various sources quote seven communication touch-points are needed before you can acquire a new customer. It's not quick, easy or cheap.

Priority should always be placed on existing customers – retaining them and developing new opportunities from within. Existing, happy customers are also great advocates, and increasingly business is being won on the basis of referrals.

Divide and conquer

Having made some important business-level decisions, marketing strategies and tactics can now be used to focus on specific objectives.

Placing the customer at the heart of what you do requires the use of segmentation. We no longer live in a time of mass communication; marketing is all about one-to-one messaging, and to do that requires focus.

Segmentation relates to existing customers as well as prospecting for new customers. Not all customers/prospects are equal and creating small groups with similar characteristics/requirements makes sense, particularly when marketing budgets and time may be limited.

For business-to-business (B2B) marketing we can segment by various criteria, including:

- business activity (Thomson classification or SIC – Standard Industry Classification);
- business size (by turnover; number of employees; head office, branch, or single site);
- business type (legal status);
- year of incorporation; and
- geography (town; county; postal region; or postcode).

The characteristics used for business-to-consumer targeting; demographics, psychographics and behaviours cannot be so easily applied to B2B, though can be examined when looking at the individual within an organisation who may make/contribute to a purchasing decision.

The message and the medium

How messages are delivered – via which marketing channels – is then a choice of best fit and balancing objectives with budget. One size doesn't fit all;

' The answer to many marketing challenges lies in data '

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> ‘ Priority should always be placed on existing customers – developing new opportunities from within ’

ANSOFF’S PRODUCT-MARKET MATRIX

	Existing products	New products
Existing markets	**Market penetration** Selling more of your existing products or services to your existing customers. This represents the lowest risk.	**Product development** Developing your existing products or services within existing markets.
New markets	**Market development** Moving into new markets, with your existing products/services.	**Diversification** New markets with new products or services. This is generally a higher risk, higher reward strategy.

customers/prospects all have their channel preferences, which can even vary throughout the day/days of the week.

Some will listen to the radio on the way to work, some will read a daily newspaper or business publication while others do their research solely via the internet.

As communications continue to evolve, the most important thing to do is to stay relevant. By understanding your audience, you will understand their requirements and where/when/how best to communicate with them.

Stay front of mind

It’s human nature to rank things. People remember firsts – the first person to walk on the moon, the first person to climb Mount Everest. Rarely are those that follow remembered. It’s therefore key for you and your product or service to rank first in the minds of your target audience.

Ries and Trout introduced the concept of positioning over 30 years ago. To be successful, Ries and Trout explain that you need to connect with what is in your customer’s/prospect’s head.

By consistently reinforcing that message you can stay ‘front of mind’ and ready for recall when the time is right.

Networking

Networking is one of the best ways to stay front of mind. LinkedIn is by far the most effective social media platform for business-to-business.

Whatever social media tool your prefer, sharing updates is by far the easiest way to ensure you appear in your contacts’ timeline. To further increase your visibility, like, share or comment when you come across interesting posts from your connections. It takes five minutes.

Online networking has levelled the playing field and extended geographical reach. Social media also presents a great opportunity to establish your business and its personnel as the foremost experts in their field; first in mind.

However, great as online tools are, don’t forget the value of meeting face to face. Nothing beats a good chat over a cup of coffee. This is where the most important conversations take place – where you discover your clients’ biggest concerns, and see how you can help.

‘Measure what matters and make measurable what is not so’

This quote from Galileo Galilei is the key to continued marketing success. There are a lot of key performance indicators that we focus on as marketers – from audience size and engagement, to content type to the best time of day/day of the week – the amount of data at our fingertips makes almost anything measurable.

The answer to many marketing challenges lies in data. Whether that’s finding existing data to confirm a situational analysis (where are we now), data to identify opportunities such as market size/opportunity to increase share (where do we want to be?) or data to quantify response to activity (how will we know we have arrived?).

Define your metrics at the planning stage and then review/refine at regular intervals.

But don’t forget …

While growth can present good fortune, it also brings many challenges. In their ‘choosing a growth strategy checklist’ the CIM outlines key areas for managers to avoid:

- thinking that styles of management or company structure don’t need to change as the company grows;
- neglecting cultural differences when working in new regions;
- expanding sales too far without sufficient support and resourcing; and
- treating communication and engagement as ‘the soft stuff’ or an optional extra.

Marketing is not just about external audiences; internal communication and buy-in among stakeholders is critical. After all every single thing a business does has a potential impact on business development and every member of staff who has contact with a customer/prospect is a part of the business development team. Don’t forget to share your strategy with everyone involved.

REDUCING EMPLOYMENT LAW RISK AS COMPANIES EXPAND

People are the bedrock of your business so it is essential to get your employment practices right while focusing on growth. **Clare Murray** and **Susanne Foster** look at the key issues.

For business owners and managers there is much to contend with when operating a growing company. When resources are limited, the HR and employment law to-do list can, at times, feel overwhelming, particularly in the absence of a HR department or specialist. So, what steps can SMEs take to reduce employment law risk and ideally prevent employment-related concerns escalating in the first place?

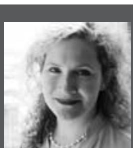
The recruitment process

When expanding your business, take time to ensure that you have the best recruitment processes in place to get the employment relationship off on the right foot. These processes also set the appropriate tone for the relationship. Implementing a best practice approach will help a business identify the right candidate and ensure they are properly integrated into the workplace once recruited.

When recruiting use a formal interview selection process which provides for clear and objective selection criteria. Those who are running the process should have received equality and diversity training, particularly in relation to recruitment (a written record should be retained of the individuals who have received this training and when).

The recruitment process should be carefully documented from the outset, from the point at which a written job description is prepared through to notes taken at each interview.

‘ The recruitment process should be carefully documented from the outset, from the point at which a written job description is prepared through to notes taken at each interview ’



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Statutory discrimination protections apply to every stage of the employment relationship including protecting job applicants, so use neutral and objective criteria and language, and avoid stereotypical assumptions (bearing in mind that such documentation, including meeting notes, could possibly be disclosable at a later date should any candidates raise concerns about the recruitment process or during their employment). The Advisory, Conciliation and Arbitration Service (ACAS) produces a booklet on recruitment and induction issues for employers that SMEs are likely to find helpful; it can be found on their website www.acas.org.uk

Written contract and policies

Once you have found your preferred candidate, prepare the paperwork. Ensure that any offer made by the business is conditional upon satisfactory references; the candidate’s proof of permission to work in the UK; and evidence of any necessary qualifications.

There is certain information which you are legally required to provide to an employee within two months of their starting work. Such information includes (but is not limited to) details relating to salary, hours of work, notice period, holiday and sickness pay, disciplinary and grievance procedures, pension provisions etc. This information is usually incorporated into a written contract where you may also choose to include other details, such as the scope of the role, targets, probationary period (including end of probationary period review with extension if necessary) and details relating to additional benefits and training.

Protect your business from the outset

You may wish to include provisions in your employment contract which aim to protect the business from the outset, particularly if your new recruit will play a strategic role in your business and/or is client-facing. For example, consider if restrictive covenants and garden leave or provisions relating to intellectual property and confidentiality are appropriate. We explain each of these briefly below.

Restrictive covenants

These can be used to prevent a departing employee from, for example, soliciting clients and staff after they have left the business. Legally such restrictions are void as unlawful restraints of trade and contrary to public policy, unless they protect a legitimate business interest (eg trade connections, trade secrets or workforce stability) and go no further than is necessary to protect that interest. It is worth investing some time in getting these provisions as tailored as you can from the outset so that you are in the best position to try and enforce them against your departing employee should you need to rely on them.

Garden leave

In conjunction with restrictive covenants, you may also choose to include a garden leave provision. Typically these require the employee not to work during some or all of their notice period and usually to remain at home. These provisions can be used to protect the business by, for example, allowing the employer to consolidate its relations with clients while the employee is away from the office and not working for a competitor.

Confidential information

Once an employment relationship has ended, the former employee is only bound to keep information confidential if it amounts to a trade secret. Therefore it is prudent for employers to include contractual terms in their employment contracts from the outset which restrict the employee's ability to use or disclose other confidential information (which does not amount to the high threshold of a trade secret) once the employment relationship has ended.

Intellectual property

If the employee is likely to create materials or inventions during the course of their employment, you should obtain specialist intellectual property advice to tailor provisions to ensure as far as possible that your business will own all rights in those materials or inventions.

Staff handbook and other policies

There is no legal requirement to have a staff handbook. However a handbook – or at least a core set of policy documents to which employees can refer – is important in setting out the standards of behaviour expected of staff, and is invaluable when an employer is addressing issues of employee conduct and performance, up to and including dismissal.

Certain policies and procedures which are recommended to be issued to employees include the following: disciplinary and grievance, equality and diversity (see further below), anti-harassment and bullying, sickness, whistleblowing, email and internet use and, if appropriate, social media etc. Certain policy documents are also required by law, so for example if you employ five or more people, you must have a health and safety policy statement and the arrangements for carrying out that policy.

If you do provide a staff handbook or other policy documents you should ask employees to sign an acknowledgment to confirm that these have been read, understood and that they agree to be bound by the provisions.

Equality and diversity

It is best practice to have in place an equality and diversity policy along with related training for all staff. Such policies can discourage discriminatory attitudes and behaviours. They can also help set standards expected by an employer in avoiding and preventing discrimination.

It is vital that any policy is publicised and training provided. Ensure that any breaches of the policy are dealt with consistently and effectively. Having in place a policy may also assist in the defence of a discrimination claim, so long as the policy is effectively enforced and you can show that you took reasonable steps to prevent any discriminatory actions or inappropriate behaviour by your staff.

Key statutory and contractual employment law rights

Employers, and in particular managers, should be versed in the key statutory and contractual employment law protections available to staff so they know the company's (and their own) obligations and potential liabilities. They should also have an understanding of the processes and procedures they should follow to minimise their business's exposure to such claims and liabilities as far as possible.

For example, employees are protected against unfair dismissal; discrimination on the grounds of sex, marital status, pregnancy or maternity, race, disability, sexual orientation, gender reassignment, religion or belief, and age, as well as from detriment or dismissal for having blown the whistle.

No length of service requirement is necessary for an employee to bring either a discrimination or

> ‘ The right to request flexible working was extended to all employees with 26 weeks’ continuous service ’

whistleblowing claim, the typical remedies for which are loss-based, uncapped compensation (subject to an employee’s duty to try to reduce their losses by finding another job).

An employee will (except in very limited circumstances) need two years’ employment with the company in order to bring an unfair dismissal claim (unless they were employed before 6 April 2012, when only one years’ employment is required). The primary remedy for a successful unfair dismissal claim is compensation, comprising a basic award (based on the employee’s age, length of service and weekly pay capped at £464 per week) and a loss-based compensatory award subject to a cap of the lower of £76,574 or 52 weeks’ pay.

Again the employee has a duty to try to reduce those losses by looking for another job. Alternatively, reinstatement or re-engagement with back pay can also be awarded in certain circumstances.

Part-time and fixed-term employees also have protection from less favourable treatment, unless that treatment can be objectively justified.

Family-friendly rights

Don’t forget family-friendly rights either: eligible employees are entitled to up to one year’s maternity leave, as well as maternity pay, two weeks’ paid paternity leave, additional paternity leave (including sharing a portion of the mother’s maternity leave and pay where applicable) and, if certain criteria are met, comparable adoption provisions. A new system of shared parental leave is due to come into force in 2015 which will allow parents to share statutory maternity leave and statutory adoption leave (and additional paternity leave will be abolished).

Other leave provisions for eligible employees include parental leave (up to 18 weeks’ unpaid) and reasonable time off work to deal with an emergency involving a dependant.

From 30 June this year, the right to request flexible working was extended to all employees with 26 weeks’ continuous service (and not just those with a caring responsibility).

Be pro-active with performance

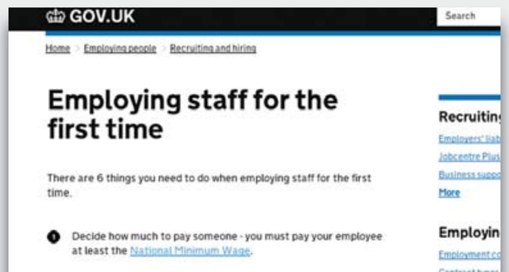
Performance issues and concerns with staff should be addressed promptly. Poor performance does not tend to get better by itself or go away. It can be addressed informally, with informal monitoring and follow up, or more formally in one-to-one meetings or during appraisals (with these steps being formally documented and training and support offered).

If no improvements are made you may then choose to commence a performance management or disciplinary process. Bear in mind the ACAS Code of Conduct which should be followed in cases of misconduct or poor performance. The code sets out the basic requirements of fairness and provides practical guidance to employees and employers carrying out disciplinary procedures. Failure to follow the code could lead to an increase in compensation should the matter proceed to an employment tribunal.

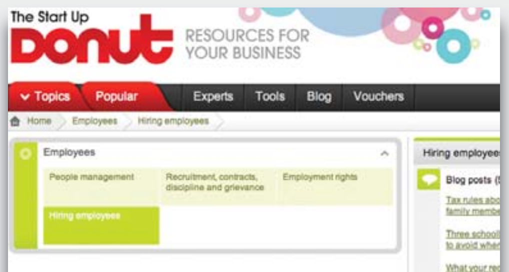
Correct checks and balances

Employment law rights and obligations can appear somewhat overwhelming; however by putting in place the correct checks and balances from the outset businesses will put themselves in the best position possible for preventing and if needs be, defending claims in the future.

RECRUITMENT NOTES



The UK Government offers a useful toolkit containing guidance on both recruitment and the technical aspects of employment.
www.gov.uk/employing-staff



The Start Up Donut provides a comprehensive employment guide – from finding a suitable candidate to interview techniques.
tinyurl.com/SR46-Donut

MAKE SURE YOUR SPACE IS WORKING FOR YOU

Growing businesses can run up against logistical issues such as premises, which can prove to be an obstacle if not managed well, as **Paul Bagust** explains.

Decisions about premises – buying, leasing, maintaining or extending – can be daunting for business entrepreneurs whose main energies are focused on making a success of the business itself. Finding the right solutions to your property needs and dealing effectively with the many issues that can occur while you are in occupation is integral to running a successful business.

The top priority is location. If you get this wrong there is no way of correcting your mistake except by moving again! If your business is in manufacturing, ease of access to sources of raw materials and to your markets may be essential. If you are running a shop, it should clearly be in a location where the public will notice it and find it easy to visit. For cost reasons you may have to accept some compromise.

You need to consider your business strategy, the number of people you will be employing, the processes used in the business and the machinery required.

Consider also your ongoing plans. Should you ensure at the outset that there is space for expansion or will you rely on a move to larger premises at a later date as the business expands? Think about the quality of the workspace environment and how this may affect staff and their productivity. All of these considerations need to be thought through before you make a final choice about your premises.

Pitfalls and safeguards

Check the state of repair. A chartered surveyor can play a key role here and will be able to advise you on the repair outlays that you are likely to face. If you are leasing the property, you need to be clear who is responsible for repairs: the landlord or you, the tenant. Check that the property has planning permission for your use and that there are no restrictions on your ability to run your business, (eg, a limitation on working hours or noise emissions).

If you need to obtain planning permission for your use, remember to allow eight to 10 weeks (and, unfortunately, sometimes a lot longer) for the application to be processed. Altering services such as electricity and gas can be extremely expensive, so always ensure that the property has adequate mains services and that they are in good order. Ensure that the premises comply with health and safety requirements, including fire regulations and access requirements under disability legislation.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‘ You need to consider your business strategy, the number of people you will be employing, the processes used in the business and the machinery required ’

It will vary with the circumstances but, as a rough guide, allow between three and six months to find a suitable premises. It is vital that you are in control of the timetable.

Buy or lease?

Try to build a picture of where you expect the business to be in five years' time. Leasing is generally more flexible than buying, at least in the case of a short lease. If your business is currently small but you expect it to grow, leasing might be the preferred option. You can take a lease or even a licence on premises that satisfy your present space requirements. As your space needs increase you can move on to a larger building without the hassle of having to sell your original premises.

With industrial buildings in particular, design trends change quite a lot and if the building that you lease becomes obsolete you can move to one that meets current requirements. However, there is always the possibility of buying a building which can be extended or adapted if you find you need more space in the future.

Some types of business require a large amount of plant and equipment in the building, with high installation costs. As you will want to write off these costs over many years, you will not want to change premises at frequent intervals. In this case, buying may make more sense than leasing. If you do take a lease, it will need to be a long one.

Freedom

Aside from the question of moving premises, you will generally have more freedom of action as an owner than a tenant. You would not need to obtain a landlord's approval (with the attendant time delays and costs) for changes that you want to make. It is more likely that you would be able to extend the building. You will not be faced with the administrative inconvenience of negotiating rent reviews, of renewing your lease or of arguing dilapidation claims if you move out. On the other hand, many of the same restrictions will apply whether you buy or lease.

You will still need to maintain and insure the building, whether it is for yourself or a landlord and you will still

be subject to the same external constraints, like the need for planning permission when the occasion arises.

Financial sense

This is where the two-way arguments are at their strongest. Many larger businesses consider that their capital is better employed (and will earn higher returns) in the business itself than if it is tied up in the company's properties. They may tend to lease their buildings rather than own them and even dispose of existing buildings that they do own via a sale and leaseback (this is where the property is sold to an investor, but the occupier remains in occupation as a tenant, subject to a lease).

The decision depends partly on the way that you expect the property market to move. If you expect the level of rents to move up rapidly, as a tenant you could face big increases in your rent bill in the future when rent reviews occur, and if you do not own your property it is the owner, not you, who will benefit from any future increase in their capital value.

If you own your property, you will get the benefit of any capital appreciation and will own an asset at the end of the day. If the building increases substantially in value, you might be able to borrow against the increased value in the future, which could extend your financing options. You will not have to worry about big increases in your occupation costs following rent reviews.

You should also discuss the issue with your advisers as there may be some tax implications flowing from the decision as to whether to lease or buy.

How would I finance a purchase?

A commercial mortgage is the most common form of finance for the purchase of a building, particularly of the type likely to be used by a smaller business. Such mortgages are obtainable from a variety of lenders, including the main high street banks and some building societies. You may compare the terms on offer yourself or enlist the help of a specialist mortgage broker. The terms and the cost will vary quite a lot, depending on the options that you choose.

In costing out commercial mortgages, remember the additional costs as well as the interest payments and capital repayments you will have to make. There will be valuation and legal costs at the outset and if you go via a broker there will be his or her fee to consider. The lender may charge an up-front fee for setting up the loan and there is the cost of any required insurance. There will also probably be penalties for early repayment: look carefully at these before you make the decision.

Taking a lease

Signing a lease on premises means that you are probably entering into one of the most significant financial commitments that your business will make. So there is a lot of work that you and your professional advisers need to have done before you reach this point.

A lease is a binding contract in law which sets out the terms and conditions of the tenancy agreement between landlord and tenant. It defines the rights and obligations of both parties. It is therefore enforceable – you cannot simply walk away from a lease. However, certain aspects of the relationship between landlords and tenants are also defined by law. A first draft of the lease will usually be drawn up by the landlord's solicitor as a basis for discussion between the parties.

It is up to the landlord and tenant and their advisers to agree the starting rent before the lease is signed. However, this rent may subsequently be reviewed at intervals.

In addition to rent, there are certain other regular payments that you as tenant may need to make to the landlord. Particularly where you occupy only part of a larger building, the landlord may charge you a portion of the cost for services that he or she supplies for the building as a whole: maintenance of common parts, decoration and maintenance of the exterior of the building and the like. This will generally be described as a 'service charge'. It is important to ensure before signing the lease that you understand the basis on which service charges will be calculated and the sums likely to be involved.

‘ Once you have vacated the surplus space and divided it off, you could have it separately rated, then pay reduced rates on the vacant part ’

Dilapidations

Before you take a lease, a survey will establish the condition of the premises, giving an indication of work that may be needed, both immediately and later. If the premises are already in bad repair, special considerations apply. During the term of the lease, regular or planned maintenance can avoid greater expense later. It is usually a good idea to record the condition and layout of the premises before you occupy.

Business rates

You are almost certainly liable to pay business rates if you occupy business premises. Business rates are a tax based on the rateable value of the property, which reflects its rental value. The rateable value can, however, be challenged. It may change in any case if the premises are altered or if their value is affected by changes in the locality. Some limited classes of property are exempt from business rates altogether.

Businesses are liable to pay the ‘uniform business rate’ (UBR), and it is usually the tenant who will be responsible. Occasionally, however, the landlord will pay the UBR and pass on the cost to the tenant, perhaps in the service charge.

The lease should make clear where the responsibility lies. Small business rate relief may be available to your business (see box on page 22).

Taking a licence

If your business is very young or a complete start-up, there might be advantages in occupying your premises under a licence rather than a lease. Property owners sometimes find it convenient to grant a licence, partly because the occupier will not qualify for ‘security of

MAKING THE MOST OF YOUR SPACE

The way you design and use your space has an important effect on productivity and quality and also helps to reflect the image you are trying to create for your business.

What if I have too much or too little space?

By the time you have done your preliminary planning, you will begin to get a feel for the way space is driven by your business’s requirements. You may have concluded that productivity is being affected by lack of space or you may realise that you have some space that is surplus to requirement. If you want to avoid taking on more space or if you want to free some of your existing space for sub-letting, there are various options you should consider.

Will an open-plan layout save me space?

In many cases, yes. A lot of fixed offices are generally a more expensive and less flexible use of space. So always challenge whether fixed offices are necessary – but do not forget that you will need some meeting rooms for private meetings or client presentations.

It is a good idea to approach your planning from the standpoint of space needed for the job rather than space that reflects status.

How important is choice of furniture?

The type of furniture you use has a big impact on the amount of space you need. Business furniture falls into one of two main categories: freestanding or system furniture. System furniture is designed in the form of components which can be put together to form workstations. It is likely to be expensive but in most cases can save you space and therefore money.

Could hot-desking save on space?

Quite possibly, though it depends on the nature of your business. The principle of hot desking or shared workspace is that you do not allocate a personal desk or workstation to each employee. When they are in the office, employees use whatever workstation is free. This works best when individuals spend a fair part of their time away from their desks – on site or visiting clients.

How should I deal with surplus space?

Usually by sub-letting it to provide a rental income. The first step is to arrange any surplus space into areas which are capable of being let. This means that the space has to be divided off from the rest of your premises and a separate entrance will need to be provided for the tenant.

If you occupy your premises under a lease, before you get to the point of undertaking alterations or building work you will need to check what restrictions there are on sub-letting and what permissions you will require from your landlord.

Your chartered surveyor will be able to help to explain the situation and advise you on procedures, and will also be able to help with the approach to marketing your surplus space.

Finally, you might save some money on business rates. Once you have vacated the surplus space and divided it off, you could have it separately rated, then pay reduced rates on the vacant part.

> ‘ Licences are usually for much shorter periods than a lease and do not require the same level of financial commitment ’

tenure’. Licences are usually for much shorter periods than a lease and do not require the same level of financial commitment. Licences need to be drawn up very carefully. Otherwise they might be interpreted in law as a lease. It is vital to take advice from a solicitor and a chartered surveyor before signing a licence, either as occupier or licensor.

Tax allowances on property

There is no point in paying more tax than you have to. Some of your property-related spending may be allowable against your profits for tax; but this depends on the classification of the expenditure – a highly complex area where you really need specialist advice at the earliest possible stage.

Insurance

You need adequate insurance for your premises to protect your business. If you are a tenant, it is probably required by your lease. It is important to remember that buildings insurance does not usually cover disruption to your business, contents or stock which will probably need to be insured separately. A chartered surveyor can calculate the reinstatement cost for insurance purposes, advise you on precautions that will satisfy your insurer and negotiate on your behalf if you are unlucky enough to suffer a loss.

If you are a tenant, the first step is to establish from the lease who is responsible for insuring the premises. It may be that you are required both to arrange and pay for the buildings insurance. On the other hand your landlord might arrange insurance but pass the cost on to you. If you occupy only part of a building, the landlord will probably arrange insurance for the building as a whole and charge you your proportion of the cost.

Your professional adviser can undertake a reinstatement cost assessment. This tells you what it would cost to rebuild the premises if they were to become a total loss, including the cost of demolition and clearing the site plus professional and local authority fees. However, you must make allowance for inflation in construction costs. In an industrial building, any process plant would normally be insured under a policy separate from that covering the building structure.

Make sure that your insurance provides cover for disturbance and relocation costs should your premises become unusable following serious damage. You should also ensure that you have insurance cover for continuing to pay rent in the event that the building is damaged and you are unable to run your business from it.

Keeping good property records

When problems related to your premises crop up, a good record-keeping system helps you to respond quickly. If you suffer a break-in, for example, it will allow you to identify what is missing and make the appropriate insurance claims without delay. It helps you to identify losses through theft and also to identify poor-quality equipment that fails rapidly.

Planning the record-keeping system

A property record-keeping system falls into three main parts:

- the premises;
- the contents; and
- the occupants (your employees).

The records may be kept on computer or they may be in hard copy form. Whichever system you use, it needs to be up to date, accessible and accurate. It must be flexible to account for changes brought about by additions and deletions. Your property records should also be backed-up outside the building in case of fire, etc.

Many property-related topics can be highly complex and this article can only provide an outline of the key points. It is not a substitute for the depth of knowledge and experience that a professional adviser can provide.

A comprehensive 59-page *Small Business Property Guide* is available on the Royal Institution of Chartered Surveyors website at: tinyurl.com/SR46-RICS

SMALL BUSINESS RATE RELIEF

Rates relief is available for businesses occupying ‘small’ properties. Small properties in England are those defined as having a rentable value (RV) of under £18,000 (under £25,500 in London).

The Small Business Rate Relief scheme from 2010 offers relief at 50% (100% from 1 October 2010 now extended to 31 March 2015) for businesses with an RV of under £6,000, declining on a sliding scale to 0% relief at RV £12,000.

Businesses occupying more than one property are eligible for relief only if their ‘main’ property has an RV under £12,000 and all their other properties are under RV £2,600 and the aggregate of all hereditaments occupied is under £18,000 (under £25,500 in London) – but note the relief will apply to the main property only.

- The scheme is funded by the Small Business Relief Supplement.
- There are special rate reliefs available for small businesses in rural areas.
- There are different Small Business Rate Relief schemes in Wales and Scotland.
- Your local authority will be able to provide details of the Small Business Rate Relief that may be available to you.

THE TAX IMPLICATIONS OF BUILDING YOUR BUSINESS

One of the principal tasks of a growing business is to ensure that its tax structure meets the needs of the operation and the tax regulations. **Anita Monteith** of ICAEW offers advice.

All too often, people drift into running a business and give no consideration at all to the tax aspects until a deadline is mentioned or they realise they have had income and really need to pay some tax on it. So if you are thinking ahead then you are already better placed than most to manage the tax your business pays and avoid missing opportunities or making mistakes.

The law is vague on how the precise commencement date of a new trade is defined and there have been many tax cases about this, both for income tax and for corporation tax. For instance, negotiations to enter into the initial contracts are part of setting up the new trade, but they do not mean that trade has started. So, to an extent you can create your own start date, perhaps for example by delaying the first year for which you need to pay income tax on the business profits by starting just after 5 April rather than just before it.

There are, though, some occasions when tax law stipulates that a new trade has begun, for example where the business becomes or ceases to be resident in the UK, so be careful.

The options for the trading vehicle

So what are the options for your trading vehicle? If you are going it alone, then it is a simple choice between being a sole trader or setting up a company in which you own the shares and are the sole director/employee.

If you will be working with others, then you have slightly more choice. You could trade as a partnership, a limited liability partnership (LLP) or through a company.

An LLP is attractive to many because it is taxed like a partnership, ie, the profits are subject to income tax, but the limited liability provides a useful safeguard, as this sets a limit on the amount of personal loss in case the business fails.

The things you should consider from a tax perspective, and which may influence your decision include:

- the taxes, rates and amounts chargeable, which apply in each case;
- how the business is to be financed and what tax relief can be secured for this. Do you plan to use third party investors and will they want tax relief?;
- whether you are likely to make losses in the early years and how those losses can be used;
- will you be eligible for research and development tax credits? These are only available to companies;
- do you have an exit plan?; and
- the administrative requirements for filing tax returns for the different types of entity.

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‘ If you are planning to run a business with more than a few simple transactions, it is worthwhile taking tax advice ’

Although most readers of this article are likely to be accountants and so will have studied tax at some time in their career, tax rules change frequently. I think it is good to understand the options here and why they matter, but if you are planning to run a business with more than a few simple transactions, it is almost certainly going to be worthwhile taking tax advice, even just initially. You could easily spend hours researching the rules of course, but then I presume the business you want to establish isn’t selling tax advice, so why waste the time?

Unincorporated businesses

As a sole trader or partnership the business owner must pay income tax and national insurance contributions (NIC) on the full amount of taxable profit earned by the business each tax year. The business prepares its accounts to the accounting date chosen in a tax year and it is those profits which are taxed in that year. For example, Mary started her business on 6 April 2014 and prepares accounts for the year ended 5 April 2015. These profits will be taxed as her income for 2014/15.

Trading profits for tax purposes must usually be calculated in accordance with generally accepted accounting principles, so taking into account accruals and prepayments, stock held at the year end and fixed assets in the usual way. From 2013/14 onwards, an alternative basis using cash accounting rather than accruals is available for unincorporated businesses to use. Cash accounting means income is only taxable when cash is received and expenses are only deductible when they are paid. The main aspects of the cash basis are that:

- it is optional – businesses have to choose to use it;
- it is available to businesses whose annual receipts are less than the VAT registration threshold (£81,000 with effect from 1 April 2014), or twice the VAT threshold (ie, £162,000) for Universal Credit claimants. Businesses are required to revert to the accruals basis if their annual receipts exceed twice the VAT threshold;
- receipts comprise all incomings including the sales of assets;
- allowable payments are all expenses paid wholly and exclusively for business purposes, including certain fixed assets (though not investments or property);
- if the business is VAT registered, income and expenses are to be recorded net of VAT. If the business is not VAT

‘ Trading profits for tax purposes must usually be calculated in accordance with generally accepted accounting principles ’

registered, expenses will include any input VAT. As with the accruals basis, entertaining expenses are not allowable;
- losses may be carried forward against future profits but not carried back or relieved against general income of the year of loss. Cash basis losses are considerably less useful in tax than those calculated using accruals accounting;
- there will be no capital allowances;
- there are transitional rules for businesses entering or leaving the cash basis which should mean that income is only taxed once and expenses are only allowed once; and
- relief for interest paid is restricted to an annual amount of £500.

Regardless of whether accruals or cash accounting is used, a system of fixed rate deductions is also available from 2013/14. It is hoped that this will simplify tax computations by permitting allowable expenditure to be calculated using simple flat-rate allowances rather than by a potentially complex apportionment of actual expenditure.

The three sets of allowances are:
- motor expenses;
- use of home for business; and
- premises used as a home and for business, such as pubs or small guest houses.

The system of fixed-rate deductions is available for use by persons carrying on an unincorporated business even if they have not made a cash basis election.

The rates for using a car or motorcycle for business use are:
- car or goods vehicle 45p per mile for the first 10,000 miles, and 25p per mile thereafter; and
- motorcycle 24p per mile.

If you run your business from home, then instead of apportioning the total house expenses between private and business use, a flat-rate deduction can be claimed for each month or part month it is used, according to the number of hours worked at the home each month.

The table of rates is:

Number of hours worked per month	Monthly amount £
25–50	10
51–100	18

Businesses are free to opt for the fixed-rate basis from year to year according to which is more suitable, but it is likely that the simplicity of the deduction will appeal to smaller businesses wishing to simplify their process.

For more information about the cash basis and fixed-rate expense deductions, do consider joining the ICAEW’s Tax Faculty and you will receive our comprehensive guidance to these new rules, TAXline Tax Practice no 31.

The ICAEW faculties are not just for technical specialists who work in esoteric fields, but rather they offer help and guidance on mainstream areas of accounting and tax for business (see icaew/taxfac and icaew.com/fmjoin for further information).

Administrative points for a new unincorporated business

When you set up a new business and so have untaxed income because you are self-employed, or if you set up or join a partnership, you should register with HMRC as soon as you start to trade.

The easiest way to do this is online using HMRC’s tax registration service to register for self-assessment. One of the benefits of doing this online is that you can register for more than one tax at the same time.

You can also register a new business by completing form CWF1 which you then post to HMRC, or you can phone the self-employed helpline on 0300 200 3504 (see the links at the end of this article for more information).

Having registered the business, HMRC will then send you an annual self-assessment tax return to complete.

The deadlines for filing your tax return for 2014/15 are:
- 31 October 2015 on paper; or
- 31 January 2016 online through the HMRC website.

Unless you have used the online service to register for all taxes, the owner of a new business must also register for NIC. Once registered, you can choose to make your NIC payments either monthly or six monthly by direct debit. If you are unlikely to make enough profit to exceed the class 2 NIC threshold (see ‘Box 1 – Tax rates’, opposite), you should make a small earnings exemption claim separately.

Incorporation

If you decide to operate your business through a company, the company will be subject to corporation tax on any profits and will receive tax relief for losses at the company level.

Corporation tax rates are generally much lower than income tax rates and also there is no NIC charge on a company’s profits. The lower tax cost is one of the main reasons why so many small businesses are set up as companies.

Shareholders are only taxed on income that is distributed to them by the company (usually in the form of dividends) as compared with the position for a sole trader, who is taxed on all profits whether or not they have been drawn out of the business.

Many owners of these one-person companies will also be directors of their companies and may even have a contract of employment and be paid a salary by their company for the services they provide to the business. The normal rules of the personal tax regime apply to this

> ‘ One of the main drawbacks of trading through a company is the additional administration burden ’

salary income. Usually the individual will be paid a salary which is just enough to exceed the employees’ NIC lower earnings limit so that the individual accrues entitlement to the state pension.

There are also special tax rules which require family companies whose shareholders take loans from their companies, including informal loans such as through a debit balance on a director’s current account, to make special tax payments to HMRC.

These close company participator loan rules impose a 25% tax charge on the company for any loan amount still outstanding nine months after the company’s year end.

Administrative points for a company

One of the main drawbacks of trading through a company is the additional administration burden.

Unlike other taxes such as income tax or VAT, where in most cases the return filing and payment deadlines for the particular tax are identical, the deadline to pay your corporation tax is before the deadline to file your company tax return.

Generally you must:

- pay corporation tax by nine months and one day after the end of your company's corporation tax accounting period; and
- file by 12 months after the end of your company's corporation tax accounting period.

The corporation tax return itself consists of the actual tax return (CT600), the corporation tax computation and the company’s accounts. These last two requirements must be filed using in-line extensible business reporting language format, and the entire package must be filed online through the HMRC website.

If the company pays the owner/manager, or indeed anyone else, as an employee, it will also need a PAYE scheme.

Employee vs self employed and IR35

The intention of this article is merely to point out some of the main tax considerations when starting a new business and IR35 is a minefield to watch out for. IR35 is the usual way of describing legislation introduced in April 2000 and is named after the number of the Budget note in which it was announced.

Prior to the introduction of this legislation, an individual could avoid being taxed as an employee and paying Class 1 NIC on payments for services, by providing those services through an intermediary such as a company. The worker could take the money out of the company in the form of dividends instead of salary, so avoiding NIC and PAYE.

The legislation ensures that, if the relationship between the worker and the client would have been one of employment had it not been for the intermediary, the worker pays broadly the same amount of tax and NICs as if they were employed directly.

While I am not going to cover the intricacies of IR35, a word of warning is appropriate. When you decide to set up in business and begin to negotiate new contracts with clients, you will need to give careful consideration to whether each contract is one of self-employment or if it is really something more like employment. If your relationship with the client is more like the latter, then that is probably how HMRC will want to see it, even if you think you are self-employed and pay your tax as such, and even if you are working through a limited company.

The HMRC website has guidance on this and it is worth taking specialist advice if you think you might be affected.

VAT

If your place of business is in the UK you may need to register for VAT. If your turnover of VAT-taxable goods and services supplied within the UK for the previous 12 months is more than the current registration threshold of £81,000, or if you expect it to go over that figure in the

BOX 1 – TAX RATES

Tax-free personal allowance	**2014-15**
Tax-free allowance	£10,000
Basic rate: 20%	£0-£31,865
Higher rate: 40%	£31,866-£150,000
Additional rate: 45%	Over £150,000
Corporation tax – for financial year	**1 April 2014 to 31 March 2015**
Tax rate for profits below £300,000 a year	20%
Tax rate for profits above £1.5m	21%
Effective marginal rate for profits between £300,000 and £1.5m	21.25%
National insurance	**2014/15**
Class 2 flat rate	£2.75 per week but can be nil if you earn less than £5,885 a year
Class 4 lower profits limit	£7,955 per year
Class 4 upper profits limit	£41,865 per year
Class 4 rate between lower profits and upper profits limit	9%
Class 4 rate above upper profits limit	2%
Employers’ Class 1	13.8% on pay over £153 a week. Nil below this. (Employees may also be liable to make NI contributions.)

A full list of rates and allowances is available at: www.hmrc.gov.uk/rates/taxes-ni.htm

next 30 days alone, you must register for VAT. You may also be able to register voluntarily.

To apply for VAT registration, you can either use HMRC's online services or use form VAT 1 and send it through the post. Most applications for VAT registration can be completed online once you have signed up for HMRC's Online Services or at the Government Gateway.

If HMRC approves your application, it will send you a VAT registration number and certificate. You may benefit from using one of the schemes available to help small businesses, such as the cash accounting scheme for VAT and/or the flat-rate scheme. More information is available from the HMRC website.

Once registered, you will need to account for VAT and submit your returns – almost all businesses are now expected to file their VAT returns online.

From 1 January 2015 business-to-consumer sales of digital goods within the EU are to be taxed at the local rate where the purchase is made. An extensive guide for affected businesses is available at www.hmrc.gov.uk/news/one-stop-shop.pdf

USEFUL LINKS

- Starting in business www.hmrc.gov.uk/startingup
- Register your business for HMRC taxes online.hmrc.gov.uk/registration/newbusiness/introduction
- Key deadlines for tax self assessment in 2014/15 www.gov.uk/self-assessment-tax-return-deadlines
- Intermediaries Legislation (IR35) – working through an intermediary, such as a personal service company www.hmrc.gov.uk/ir35

BOX 2 – TAXTOOL HELPSHEETS FROM THE TAX FACULTY

TAXtools 1: HMRC contacts

Including telephone numbers, email facilities, postal addresses and useful HMRC website links, together with a number of tips. This guide seeks to help direct you quickly to the part of HMRC you need for resolving issues and to advise on the best method of contact to use. This guide is updated on a regular basis.
www.icaew.com/en/technical/tax/working-with-hmrc/taxtools-1-hmrc-contacts

TAXtools 2: HMRC toolkits

HMRC has produced toolkits to provide guidance on areas of error frequently seen in tax returns. These toolkits set out the steps that you can take to reduce those errors. In this ICAEW Tax Faculty guide we list the available toolkits and provide further information and guidance about how they may be used.
www.icaew.com/en/technical/tax/working-with-hmrc/taxtools-2-hmrc-toolkits

TAXtools 3: Paying tax to HMRC

This ICAEW Tax Faculty guide summarises the different methods of paying tax over to HMRC. It is not intended to cover other means of paying tax such as coding adjustments. It also touches briefly on what taxpayers can do if they cannot pay.
www.icaew.com/en/technical/tax/working-with-hmrc/taxtools-3-hmrc-paying-tax-to-hmrc

TAXtools 4: Making complaints to HMRC

You may sometimes find yourself in the position of having to make a complaint to or about HMRC. ICAEW Tax Faculty has produced this guide to help you through this process.
www.icaew.com/en/technical/tax/working-with-hmrc/taxtools-4-making-complaints-to-hmrc

TAXtools 5: Tax rates, allowances and reliefs 2013/14 and ...

This ICAEW Tax Faculty TAXtool provides a summary of key tax rates, allowances and reliefs for 2013/14 and 2014/15. It includes information relevant for members both in practice and in business in an easy-to-use format.
www.icaew.com/en/technical/tax/working-with-hmrc/taxtools-5-tax-rates-allowances-and-reliefs-2013-14-and-2014-15

BOOKS, JOURNAL ARTICLES AND MORE …

The ICAEW Library and Information Service offers further resources on growing a business. The selection below is available to ICAEW members – for further information, see icaew.com/library

Online resources
A variety of online resources can be accessed via the ICAEW Library website, icaew.com/library; these include subject gateways, full text eBooks, articles and directors' briefings. A selection of key links on 'growing a business' can be found below. Please note some resources can only be accessed by members logged into the website.

Subject gateways

- Employment law, including contracts, working practices and pay: http://www.icaew.com/en/library/subject-gateways/human-resources
- Business finance and grants, including regional funding and venture capital: http://www.icaew.com/en/library/subject-gateways/business-management/business-finance-and-grants
- Marketing and sales, including brand management, online marketing, and market research: http://www.icaew.com/en/library/subject-gateways/marketing-and-sales
- Import and export, including finance and legal issues: http://www.icaew.com/en/library/subject-gateways/import-and-export
- Premises, including case law and leases: http://www.icaew.com/en/library/subject-gateways/business-management/property

Directors' briefings

icaew.com/directorsbriefings
Directors' briefings are four-page guides written for the busy practitioner, director and entrepreneur providing concise, practical advice on core business issues.

High-growth start-ups:
http://www.icaew.com/en/library/subject-gateways/business-management/business-start-up/high-growth-start-ups/high-growth-start-ups-how-to-do-it-guides

Website creation:
http://www.icaew.com/~/media/Files/Library/collections/online-resources/briefings/directors-briefings/IT17COMP.pdf

Online articles (*Finance & Management* and *Economia*)

'Grow up' – June 2014. *F&M*.
Reports on the ways in which businesses attempt growth and the associated risks involved. Looks at several different ways a business may try this, including: mergers and acquisitions, diversification and organic growth. Gives real company examples of good and bad practice for each of these approaches.

'Marking the scorecard' – May 2014. *Economia*.
Companies are starting to shift their attention from issues of survival and stabilisation to higher performance and growth. Article asks whether they are using the right tools to measure and improve their results. Discusses business performance management (BPM). 20% of businesses do not collect performance data in a systematic and coordinated way, according to a global survey by the Advanced Performance Institute (API).

'Offload or overhaul?' – January 2014, *F&M*.
As the economy recovers, organisations are turning their attention towards those parts of their businesses that they may not need to keep during a period of growth. Underperforming units that have been patched up to survive the recession may now begin to look superfluous. Restructuring or disposal may be the solution, but both come with costs and risks. Article asks how managers can accurately assess whether a restructuring is necessary, and how to identify those units that should be considered for disposal.

'Small business: Asia' – January 2014. *Economia*.
This article considers how smaller UK companies can establish themselves in Asia, examining sources of support besides investors. Advantages of supplying to Asian markets include the reputation of British products. Relates the experiences of Psyche (designer clothes), Brompton (bicycles), Aspen Pumps and Earlex (spray painters), including challenges encountered.

'Sowing the seeds of growth' – April 2013. *Economia*
Analyses the results of *Economia's* 'Geared for Growth' research project, investigating attitudes towards growth among companies in the UK, including what factors are conducive to expansion. Thriving companies' perceptions often differ from those of their less successful counterparts, as illustrated in charts included in the article.

'Lamont Pridmore: adapting to the local landscape' – April 2013. *Economia*.
Outlines the strategy behind independent chartered accountancy practice Lamont Pridmore's growth and success. Chief executive Graham Lamont emphasises the importance of good client relations, as well as concentrating on tax planning, asset and wealth management, profit improvement and cost reduction as opposed to basic compliance services. The firm has outsourced finance directors to struggling companies with successful outcomes. In addition, it runs the Winning Company Programme workshops, encouraging clients to improve continuously.

ICAEW members can borrow books and have articles supplied from the Library collection through the Library and Information Service. Books can be posted out free of charge to your work or home address. Journal articles can be supplied for a small charge. Contact the Library on +44 (0)20 7920 8620 or library@icaew.com

'Company profile: R&R Ice Cream' – Dec 2013. *Economia*. R&R has successfully grown from a smaller manufacturer of ice cream into a larger concern, even producing and packaging ice creams for supermarkets, through mergers and acquisitions as well as investing in developing new products in a marketplace that is usually dominated by food manufacturing giants. Chairman James Lambert charts the company's growth. He is keen on consolidating processes on acquiring new businesses and outlines other strategies which have benefited R&R. The company was sold to a private equity company at one stage.

eBooks

icaew.com/ebooks

- The growing business handbook: inspiration and advice from successful entrepreneurs and fast growing UK companies
- Winning with partners: a practical guide to international expansion for SMEs
- Grow by focusing on what matters: strategy in 3-circles
- Essential business finance: a complete guide to starting, expanding and selling your business
- Raising venture capital
- Venture capital funding: a practical guide to raising finance
- Taxation of unincorporated businesses: a practical and comprehensive guide for UK tax advisers
- Blog marketing: the revolutionary new way to increase sales, build your brand, and get exceptional results
- Decision equity: the ultimate metric to connect marketing actions to profits

Print resources

ICAEW members can obtain books and articles free from the Library & Information Service. Non-members can have articles posted to them for £10 plus VAT. Please email library@icaew.com for more details.

Articles

'Stepping up' – May 2014. *Corporate Financier*. The British Business Bank is a newly-founded, government-backed institution, intended to attract private capital to support lending and encourage SMEs' growth. This article reviews the structure and strategy of the organisation, in part through an interview with its CEO, Keith Morgan.

'Use customer cash to finance your start-up'. July/August 2013. *Harvard Business Review*
Discusses examples of businesses where growth is sustained without external funding. This can be having to lay out money for the product or service to be sold. Discusses research that has identified five customer-funded business models. New players in each category have found innovative ways to use customer funding to their advantage.

'Great exportations' – January 2014, *Accounting and Business*.
Looks at the government's efforts to encourage small and medium companies to sell more overseas. This is regarded by the government as one of the most effective ways to grow the economy. However, global growth is estimated to come in at 2.7% in 2014, meaning that exporters will have a steeper hill to climb. There are still opportunities, though; this article discusses some of the ways that the government is encouraging SMEs to make use of them.

'The new patterns of innovation: how to use data to drive growth' – January/February 2014, *Harvard Business Review*. Established companies are bad at finding new ways to make money, despite the pressure on them to grow. Most companies own or have access to information that could be used to expand old businesses or build new ones. These opportunities exist because of the explosion in the use of digital analytic tools and cloud computing. By asking themselves the right questions companies can find ways to unlock new business value.

'Lending among equals' – April 2014, *Financial World.*
Looks at the trends behind the increase in peer-to-peer loans, and why the sector is becoming more attractive to investors. The sector, which from April 2014 will be regulated by the Financial Conduct Authority (FCA), is now attracting serious attention from venture capitalists and institutional lenders. Now that the largest P2B (peer-to-business) platforms are starting to achieve real scale, it is possible to pick out some of the trends that characterise the sector's growth.

'Show me the money' – June 2014, *Accountancy*.
Reports on the growth in alternatives to conventional bank finance from crowdfunding to peer-to-peer lending. The growth of the alternative financing sector is putting more investors in touch with businesses of all sizes who are in need of financing. It takes many forms, whether it is via digital channels or investment firms, or lending based on assets or equity. Article includes two brief case studies: the first about how Pebble Watch was funded by Kickstarter and the second about how Wellesey & co offered the biggest ever bridging loan (£8.3m) to a property developer. Also includes a crowdfunding pros and cons list.

'Six of the best' – May 2014, *Corporate Financier.*
Proposes six lessons companies should take from private equity firms' attention to value creation through the investment life cycle: early costs assessments of back-office structures where a company is under-performing; target performance improvement from the outset; formulating a value-creation road map; achieving revenue growth through aligning product and capital strategies;

PREVIOUS F&M FACULTY SPECIAL REPORTS

Finance and Management Faculty special reports are available to members at icaew.com/specialreports. They comprise a range of in-depth reports on a single topic, sometimes by a single author, sometimes by a range of experts. They are a vital source of expertise on a variety of subjects:

- June 2014 – Risk and recovery
- March 2014 – Change management and reorganisation
- December 2013 – 21 Years: A celebration
- September 2013 – Starting a business
- June 2013 – Financial planning and cost management

reducing excess costs and improving margins; and optimising working capital. Incorporates a column reviewing the performance of the PE sector.

'Driving the business forward' – January 2013, *Accounting and Business*.
Looks at seven strategic drivers that drive the value of a business: sales growth rate; operating profit margin; incremental working capital investment; fixed capital investment – the replacement fixed capital investment and the incremental fixed capital investment; corporate tax rate; cost of capital; and competitive advantage period. Shows how these indicators can be used in real life, using the example of supermarket Tesco.

Books

Beyond the days of giants: solving the crisis of growth and succession in today's CPA firms. Florida, 2014, 161p. This book gives step-by-step guidance on how to create a growth culture founded in practitioner-led value creation, build a no-new-cost practice system to operate within it, and renew practitioner accountability to evidence-based value management practice.

Tax planning for owner-managed businesses, 2014-15. London, September 2014. This book enables you to give direct tax guidance on every stage of the life cycle of an owner-managed business – from its formation through to succession planning. It covers the interaction of different direct taxes in what is a diverse area of tax planning.

The go-to expert: how to grow your reputation, differentiate yourself from the competition and win new business. London, 2014, 273p. This book offers advice on managing your transition into a well-known and trusted name within your industry. It will help you navigate reputation-building tools with confidence and build a strong personal brand that wins you business.

The business finance guide: a journey from start-up to growth. London, ICAEW Corporate Finance Faculty, 2014, 25p. The guide sets out finance considerations and options for businesses at various stages, providing advice and sources of information to help them start, grow and prosper.

Wallet share: grow your practice without adding clients. New York, 2013, 89p. This book advises on how accountancy practices can strengthen relations with their clients through the use of a number of tools it describes, including the 3x3x3 client service model.

Leading firms: how great professional service firms succeed and how your firm can too. New York, 2013, 201p.This book acts as a guide to the special dynamics of the professional services firm, detailing the challenges of rising above the competition. It starts off by laying out the foundations of success for any firm then focuses on the capabilities that great firms possess as opposed to firms that are merely 'good'. Finally, there is an explanation of the practices and values necessary to develop a high-performing culture of professionals.

Maximising corporate value through mergers and acquisitions: a strategic growth guide. New Jersey, 2013, 338p. This book explores the various ways that M&A can successfully help companies enjoy profitable growth. It seeks to identify the keys to successful M&A while also highlighting some of the pitfalls and ways that M&A can backfire and stunt growth.

Professional services marketing: how the best firms build premier brands, thriving lead generation engines, and cultures of business development success. New Jersey, 2013, 352p. This book aims to describe the field-tested, research-based marketing and sales approach (organisations need) to succeed and discusses the marketing strategies and tactics used by thriving, high-growth firms.

The crowd-funding revolution: how to raise venture capital using social media. New York, 2013, 240p. This book aims to explain how the growth of connectivity via physical and social technologies is changing venture capitalism as we know it – and how you can take advantage of it to reach more investors than ever.

Introduction to private equity: venture, growth, LBO and turn-around capital. Chichester, 2013, 392p. The book approaches the private equity sector top-down, to provide a sense of its evolution and how the current situation has been built. It then details the interrelationships between investors, funds, fund managers and entrepreneurs. At this point, the perspective shifts to bottom-up, how a private business is valued, how transactions are processed and the due diligence issues to consider before moving ahead.

Financing high-growth firms: the role of angel investors. Paris, OECD, 2012, 153p. This report covers seed- and early-stage financing for high-growth companies in OECD and non-OECD countries with a primary focus on angel investment.

Key performance indicators (KPI): the 75 measures every manager needs to know. Harlow, 2012, 348p. Explains what key performance indicators are, gives you short overviews of each metric and describes how to use the measure effectively. There are worked examples throughout.

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