

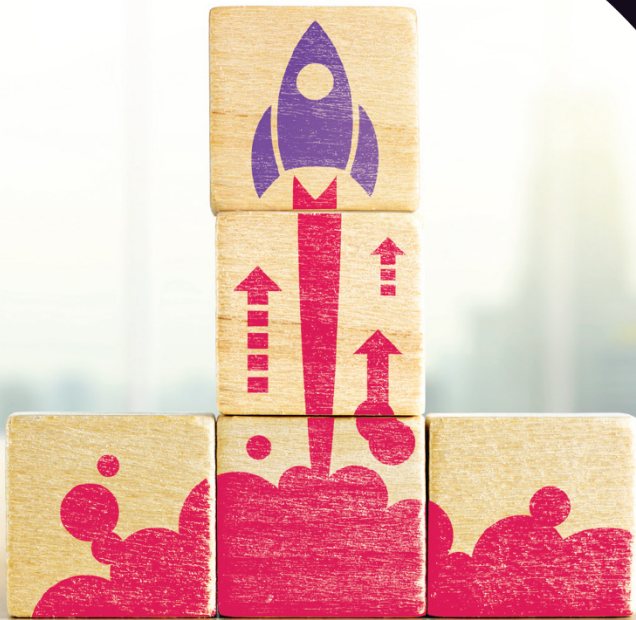
LEARNING MADE EASY



5th UK Edition

Starting a Business

for
dummies[®]
A Wiley Brand



Develop a winning
business plan

Track finances, manage
taxes, and secure funding

Build an online presence
and grow your business

Colin Barrow

Entrepreneur and co-author of
Business Plans For Dummies



Starting a Business

5th UK Edition

by Colin Barrow

for
dummies[®]
A Wiley Brand

Starting a Business For Dummies[®], 5th UK Edition

Published by: **John Wiley & Sons, Ltd.**, The Atrium, Southern Gate, Chichester, www.wiley.com

© 2022 John Wiley & Sons, Ltd, Chichester, West Sussex

Registered office

John Wiley & Sons, Ltd., The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, United Kingdom

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted by the UK Copyright, Designs and Patents Act 1988, without the prior written permission of the Publisher. For information about how to apply for permission to reuse the copyright material in this book, please see our website: <https://www.wiley.com/go/permissions>.

Trademarks: Wiley, For Dummies, the Dummies Man logo, The Dummies Way, Dummies.com, Making Everything Easier, and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc. and/or its affiliates in the United States and other countries, and may not be used without written permission. John Wiley & Sons, Ltd., is not associated with any product or vendor mentioned in this book.

LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY: WHILE THE PUBLISHER AND AUTHORS HAVE USED THEIR BEST EFFORTS IN PREPARING THIS WORK, THEY MAKE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE CONTENTS OF THIS WORK AND SPECIFICALLY DISCLAIM ALL WARRANTIES, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. NO WARRANTY MAY BE CREATED OR EXTENDED BY SALES REPRESENTATIVES, WRITTEN SALES MATERIALS OR PROMOTIONAL STATEMENTS FOR THIS WORK. THE FACT THAT AN ORGANIZATION, WEBSITE, OR PRODUCT IS REFERRED TO IN THIS WORK AS A CITATION AND/OR POTENTIAL SOURCE OF FURTHER INFORMATION DOES NOT MEAN THAT THE PUBLISHER AND AUTHORS ENDORSE THE INFORMATION OR SERVICES THE ORGANIZATION, WEBSITE, OR PRODUCT MAY PROVIDE OR RECOMMENDATIONS IT MAY MAKE. THIS WORK IS SOLD WITH THE UNDERSTANDING THAT THE PUBLISHER IS NOT ENGAGED IN RENDERING PROFESSIONAL SERVICES. THE ADVICE AND STRATEGIES CONTAINED HEREIN MAY NOT BE SUITABLE FOR YOUR SITUATION. YOU SHOULD CONSULT WITH A SPECIALIST WHERE APPROPRIATE. FURTHER, READERS SHOULD BE AWARE THAT WEBSITES LISTED IN THIS WORK MAY HAVE CHANGED OR DISAPPEARED BETWEEN WHEN THIS WORK WAS WRITTEN AND WHEN IT IS READ. NEITHER THE PUBLISHER NOR AUTHORS SHALL BE LIABLE FOR ANY LOSS OF PROFIT OR ANY OTHER COMMERCIAL DAMAGES, INCLUDING BUT NOT LIMITED TO SPECIAL, INCIDENTAL, CONSEQUENTIAL, OR OTHER DAMAGES.

For general information on our other products and services, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at (001) 317-572-3993, or fax 317-572-4002.

For technical support, please visit www.wiley.com/techsupport.

Library of Congress Control Number: 2021947387

ISBN 978-1-119-83224-9 (hardback/paperback) ISBN 978-1-119-83225-6 (ebk)

ISBN 978-1-119-83226-3 (ebk)

Contents at a Glance

Introduction	1
Part 1: Getting Started with Your New Business	7
CHAPTER 1: Preparing for Business	9
CHAPTER 2: Doing the Groundwork	27
CHAPTER 3: Can You Do the Business?	51
CHAPTER 4: Testing Feasibility	71
Part 2: Making and Funding Your Plan	93
CHAPTER 5: Structuring Your Business	95
CHAPTER 6: Preparing the Business Plan	117
CHAPTER 7: Getting Help	135
CHAPTER 8: Finding the Money	147
CHAPTER 9: Considering Your Mission	175
CHAPTER 10: Marketing and Selling Your Wares	181
Part 3: Staying in Business	211
CHAPTER 11: Employing People	213
CHAPTER 12: Operating Effectively	237
CHAPTER 13: Keeping Track of Finances	261
CHAPTER 14: Managing Your Tax Position	287
Part 4: Making the Business Grow	303
CHAPTER 15: Doing Business Online	305
CHAPTER 16: Improving Performance	327
CHAPTER 17: Exploring Strategies for Growth	347
CHAPTER 18: Becoming a Great Manager	367
Part 5: The Part of Tens	385
CHAPTER 19: Ten Pitfalls to Avoid	387
CHAPTER 20: Ten People to Talk to Before You Start	393
CHAPTER 21: Ten Reasons for Using Social Media	401
Index	411

Table of Contents

INTRODUCTION	1
About This Book	2
Foolish Assumptions	3
Icons Used in This Book	4
Beyond the Book	4
Where to Go from Here	5
PART 1: GETTING STARTED WITH YOUR NEW BUSINESS	7
CHAPTER 1: Preparing for Business	9
Understanding the Enduring Rules of Business Strategy	10
Focusing on focus – and a bit more besides	11
Appreciating the forces at work in your sector	13
Recognising the first-to-market fallacy	13
Getting in Shape to Start Up	15
Assessing your abilities	15
Discovering a real need	16
Checking the fit of the business	17
Confirming Viability	18
Researching the market	18
Doing the numbers	20
Raising the money	21
Writing up the business plan	22
Going for Growth	23
Gaining economies of scale	24
Securing a competitive advantage	24
Retaining key staff	24
Gaining critical business mass	25
CHAPTER 2: Doing the Groundwork	27
Understanding the Small Business Environment	27
Defining Small Business	28
Looking at the Types of People Who Start Businesses	29
Making your age an asset	29
Considering location	30
Winning with women	31
Being educated about education	31
Coming Up with a Winning Idea	32
Ranking popular start-up ideas	32
Going with fast growth	33

Spotting a gap in the market	36
Revamping an old idea	37
Wising up to the internet	37
Solving customer problems	38
Creating inventions and innovations	39
Marketing other people's ideas	39
Being better or different	41
Finding a contract in the public sector	42
Banning Bad Reasons to Start a Business	42
Steering clear of bad assumptions	43
Avoiding obvious mistakes	44
Recognising That the Economy Matters	44
Spotting cycles	45
Readying for the ups and downs	46
Preparing to Recognise Success	48
Measuring business success	48
Exploring the myth and reality of business survival rates	49
CHAPTER 3: Can You Do the Business?	51
Deciding What You Want from a Business	52
Gaining personal satisfaction (or, entrepreneurs just wanna have fun)	52
Making money	53
Saving the planet	54
Exploring Different Types of Business	55
Selling to other businesses	55
Opening all hours	56
Making products	57
Servicing customers	57
Working from Home	58
Finding the space	59
Checking out the rules	61
Dealing with the family	63
Planning your daily life	65
Assessing Yourself	66
Discovering your entrepreneurial attributes	66
Working out a business idea that's right for you	68
Figuring out what you're willing to invest	68
Weighting your preferences	69
CHAPTER 4: Testing Feasibility	71
Finding Enough Product or People	71
How much is enough?	72
Buying in equipment and supplies	72
Hiring in help	73

Sizing Up the Market.	73
Figuring out what you need to know	75
Finding your segment of the market	77
Checking out your competition	78
Budgeting for your research	78
Doing the preliminary research.	79
Conducting the research	84
Understanding your findings.	87
Working Out Whether You Can Make Money	88
Estimating start-up costs	89
Forecasting sales	90
Exceeding breakeven	91
PART 2: MAKING AND FUNDING YOUR PLAN	93
CHAPTER 5: Structuring Your Business	95
Choosing the Right Structure.	96
Going into Business by Yourself	98
Advantages.	98
Disadvantages	99
Settling on sole-trader status.	99
Building up to Network Marketing	100
Evaluating the pros and cons.	101
Distinguishing pyramids from network marketing.	103
Working with a Limited Number of Other People	103
Taking on an existing business	104
Forming a partnership	104
Looking at limited partnerships	106
Checking out co-operatives	106
Finding Your Way to Franchising.	107
Looking at franchise types	107
Defining a franchise	108
Evaluating a franchise opportunity.	109
Founding a Larger Company	110
Opting for a limited company	110
Buying out a business.	111
Valuing a business to buy.	112
Considering a social enterprise	113
Encouraging intrapreneurship	115
CHAPTER 6: Preparing the Business Plan	117
Finding a Reason to Write a Business Plan	118
Building confidence.	118
Testing your ideas	118
Showing how much money you need	118

Providing planning experience	119
Satisfying financiers' concerns	120
Writing Up Your Business Plan	122
Defining your readership	122
Creating the plan	122
Maintaining confidentiality	127
Doing due diligence	128
Using Business Planning Software	129
Recognising the limits of software	129
Reviewing packages	131
Presenting Your Plan	131
Starring in show time	131
Handling feedback	133
Making an elevator pitch	134
CHAPTER 7: Getting Help	135
Connecting with Government Services	136
Accessing national government support	136
Relating to a region	137
Choosing Small Business Associations	138
The Federation of Small Businesses	138
Forum of Private Business	139
The British Chambers of Commerce	140
A few more strings to your bow	140
Universities and Colleges	142
Entering an Incubator	144
Finding the right type of incubator	144
Getting into an incubator	144
Considering the cost	145
Finding out more	145
Assisting Inventors	146
CHAPTER 8: Finding the Money	147
Assessing How Much Money You Need	148
Projecting receipts	149
Estimating expenses	149
Working out the closing cash balances	150
Setting out your cash-flow projection	150
Testing your assumptions	151
Reviewing Your Financing Options	153
Deciding between debt capital and equity capital	153
Examining your own finances	154

Determining the Best Source of Finance for You	155
Considering the costs	156
Sharing ownership and control	156
Limiting personal liability	157
Going for Debt	157
Borrowing from banks	157
Going with the government	160
Financing cash flow	162
Getting physical	162
Uniting with a credit union	163
Borrowing from family and friends	163
Sharing Out the Spoils	165
Benefiting from business angels	165
Playing to the crowd	166
Going for venture capital	170
Looking to corporate venturing	171
Understanding due diligence	172
Finding Free Money	173
Getting a grant	173
Winning money	174
CHAPTER 9: Considering Your Mission	175
Developing Your Concept	176
Composing Your Mission Statement	176
Seeing the Vision Thing	177
Establishing High Values	178
Setting Objectives and Goals	179
CHAPTER 10: Marketing and Selling Your Wares	181
Making Up the Marketing Mix	182
Defining Your Product or Service Parameters	183
Using Advertising to Tell Your Story	183
Considering the customer's point of view	184
Making an exhibition of yourself	185
Setting advertising objectives	185
Deciding the budget	186
Defining the message	186
Choosing the media	187
Choosing the frequency	188
Writing a leaflet	188
Using the internet for viral marketing	189
Providing opportunities to see	189
Figuring your bang-for-the-buck ratio	189

Getting into the News	190
Deciding who to contact	191
Following through	191
Using Blogs and Social Networks	192
Selling and Salesmanship	193
Telling the difference between selling and marketing	193
Selling yourself	193
Outsourcing selling	194
Measuring results	196
Using Customer Relationship Management (CRM)	196
Settling on a Price	197
Caring about business conditions	197
Working to your capacity	198
Understanding consumer perceptions	198
Skimming versus penetrating	198
Avoiding setting prices too low	199
Pondering Place and Distribution	199
Choosing a location	199
Selecting a distribution channel	201
Appreciating People, Process and Physical Evidence	202
Understanding the role of people in marketing	203
Recognising physical evidence	204
Proceeding with process	204
Looking at Legal Issues in Marketing	205
Naming your business	205
Looking at logos	206
Protecting patents	206
Registering a trademark	207
Detailing your design	207
Controlling a copyright	208
Setting terms of trade	208
Describing your goods	210
Dealing with payment problems	210

PART 3: STAYING IN BUSINESS 211

CHAPTER 11: Employing People 213

Finding Great Employees	214
Deciding on full- or part-timers	214
Recruiting and selecting	215
Testing to find the best	219
Exploring Other Ways of Recruiting	219
Using agencies	219
Using Jobcentre Plus	220
Recruiting over the internet	220

What about the people you don't select?	221
Outsourcing jobs	221
Motivating and Rewarding Employees	222
Getting the best out of employees	222
Dealing with difficult or demotivated employees	223
Keeping motivation in the family	223
Rewarding achievements	225
Staying on the Right Side of Employment Law	229
Keeping employment records	229
Preparing contracts of employment	231
Working legal hours	232
Granting leave	232
Avoiding discrimination	233
Keeping healthy and safe	235
CHAPTER 12: Operating Effectively	237
Proposing Premises	238
Calculating requirements	238
Finding the right premises	238
Renting or owning?	239
Sorting out equipment	240
Taking the Make-or-Buy Decision	240
Making it yourself – pros and cons	240
Outsourcing – a low investment option	241
Setting quality standards	242
Choosing a Supplier	243
Evaluating trading terms	243
Building a relationship	244
Buying online	245
Minimising Risk and Assessing Liability	246
Protecting your employees	247
Covering yourself against an employee suing	247
Protecting assets	248
Covering loss of profits	248
Goods in transit	249
Protecting yourself	249
Guaranteeing goods and services	249
Dissecting Directors	251
Finding and Choosing Business Advisers	252
Tallying up an accountant	252
Investing in a bank	253
Soliciting for a lawyer	254
Managing a consultant	255

Taking Cyber Security Seriously	256
Recognising common types of cyber crime	256
Adopting preventative measures	257
Making a Virtue Out of Going Green	258
CHAPTER 13: Keeping Track of Finances	261
Keeping the Books.	262
Recording financial information	262
Starting simple with single entry	263
Dealing with double entry	263
Choosing the right accounting program	264
Outsourcing bookkeeping	266
Understanding Your Accounts.	266
Forecasting cash flow	267
Reporting your profits.	267
Accounting for Pricing.	272
Breaking even	273
Pricing for profit.	274
Building in more products	276
Handling price changes	276
Balancing the Books	277
Balancing a balance sheet	277
Categorising assets	278
Accounting for liabilities	279
Understanding reserves	279
Analysing Performance.	280
Using ratios.	280
Gearing down.	283
Keeping on the Right Side of the Law.	284
Carrying out an audit	284
Filing your accounts	284
Appreciating the Value of an Accountant	284
Getting the best out of your accountant	285
Finding your financial wizard.	285
CHAPTER 14: Managing Your Tax Position	287
Tackling Taxes for Different Types of Businesses.	288
Figuring out sole traders and partnerships.	289
Looking at levies on companies	290
Assessing the best legal structure.	291
Paying Taxes.	292
Valuing VAT.	292
Understanding EU VAT rules post-Brexit.	296
Minimising tax on profit	297

Handling Employment Taxes	298
Paying PAYE	299
Allocating national insurance.	300
Accounting for employment taxes	300
Surviving a Tax Investigation	301
PART 4: MAKING THE BUSINESS GROW	303
CHAPTER 15: Doing Business Online	305
Appreciating the Power of the Internet	306
Ruminating on richness versus reach	306
Checking out clicks and bricks.	306
Recognising the limits – you have none!	308
Reviewing What You Can Do Online	309
Generating advertising revenue	309
Recruiting staff.	309
Answering frequent questions	310
Carrying out market research	310
Building an Impactful Website.	310
Deciding on content	311
Designing the website.	312
Checking out competitors	313
Using a consultant.	314
Registering domains	314
Hosting your website	315
Selling Goods and Services	316
Using third-party websites	316
Building a store front	317
Getting paid online	319
Fulfilling orders	320
Gaining Visibility	320
Understanding search engines	321
Optimising your website.	322
Tracking Traffic	324
CHAPTER 16: Improving Performance	327
Checking Your Internal Systems	327
Keeping track of your routine	327
Analysing market position	328
Retaining Customers.	330
Realising why retaining customers matters	331
Working to retain customers.	332
Improving Productivity	337
Cutting costs.	338
Increasing margins	340

Working smarter	341
Rewarding results	342
Budgeting for Beginners.	343
Setting the guidelines	343
Analysing the variances	344
Budgeting from zero	346
CHAPTER 17: Exploring Strategies for Growth	347
Understanding the Importance of Growth	348
Measuring market share	348
Building a brand	349
Increasing Sales	350
Getting customers to buy more	350
Encouraging referrals	351
Entering new market segments at home.	353
Selling overseas	353
Adding new products or services	357
Diversifying as a last resort	358
Forming Alliances	358
Going on the alliance trail	359
Investigating and approaching	360
Franchising Your Way to Growth.	361
Bolting on a franchise.	362
Weighing the advantages and disadvantages.	363
Doing the pilot	363
Finding franchisees	364
Rolling out the franchise.	365
CHAPTER 18: Becoming a Great Manager	367
Becoming a Strategist.	368
Building a Team	368
Founding principles.	369
Coaching and training.	371
Appraising performance.	373
Developing a Leadership Style	374
Understanding leadership	375
Delegating.	375
Evolving leadership styles for growth.	378
Managing change	379
Measuring Morale	382

PART 5: THE PART OF TENS	385
CHAPTER 19: Ten Pitfalls to Avoid	387
Knowing Too Little.....	387
Being Overly Optimistic about the Market.....	389
Underestimating Start-up Time.....	389
Spending Too Much at the Start.....	390
Mistaking Cash for Profit.....	390
Choosing the Wrong Partner.....	390
Ignoring Accounting.....	391
Forgetting Working Capital.....	391
Having No Clear Competitive Advantage.....	392
Choosing the Wrong Location.....	392
CHAPTER 20: Ten People to Talk to Before You Start	393
Speaking with Your Spouse or Life Partner.....	393
Making Use of Your Professional Network.....	394
Benefiting from Entrepreneurs Who Started a Similar Business.....	395
Spending Time with a Friendly Banker.....	396
Reaching Out to Customers.....	396
Communicating with Your Current Boss.....	397
Calling Your Colleagues.....	397
Bringing in Your Best Friend.....	398
Reporting to an Accountant.....	398
Plugging into a Business Angel Network.....	399
CHAPTER 21: Ten Reasons for Using Social Media	401
Augmenting Your Marketing Budget.....	402
Acquiring Cost-Effective Exposure.....	402
Increasing Website Traffic.....	403
Moving Up Search Engine Rankings.....	404
Improving Market Intelligence.....	405
Attracting Interest to Generate Sales Leads.....	406
Growing Real Sales.....	407
Keeping Pace with Market Leaders.....	407
Creating Loyalty and Enhancing Your Reputation.....	408
Generating Referrals.....	408
INDEX	411

Introduction

If you pulled this book down from the shelf or had it passed to you by a friend or loved one as a gift, you don't have to be psychic to know something about your current business situation. You may be in need of this book for any number of reasons:

- » A relative, hopefully a distant and elderly one, has died and left you, rather than the government or a dogs' home, a pile of dosh and you don't fancy leaving it to your stockbroker to lose on your behalf.
- » Your employer is in the middle of a major downsizing operation, not such an unusual event these days, as well as proposing to close its final salary pension scheme and relocate to somewhere with lousy schools and no healthcare facilities.
- » You've a great idea for a world-beating product, bigger than Apple and Amazon combined, that no one has ever thought of but every one of the world's billion-plus internet users desperately needs. When they hear the good news, they're going to click a path to your website.
- » Your brother, sister, father, mother or best friend – or worse still, all of them – has started his or her own business and retired to a chateau in France to breed horses, tend the vines and sail on a luxury yacht.
- » You've heard that the World Bank's Doing Business study has revealed that Britain is the best big country in Europe to start, grow and run a business. Fired up with enthusiasm, you've decided it's now or never to get your business off the ground.

If your present situation is founded largely on luck and serendipity, that isn't enough to get you through the business start-up process unaided. Good ideas, hard work, relevant skills and knowledge about your product and its market, though essential, on their own aren't enough. The 350,000 small firms that close their doors every year in the UK, a figure that rose sharply in the recent pandemic, are evidence enough that the process is a tough one.

This book is aimed at you if you want to start up a business or to review your prospects in the small-business world. It brings together, from a wide variety of sources, the essential elements of knowledge that are a prerequisite to understanding the world of small business and to achieving financial and personal success, whatever the economic weather.

About This Book

Most business failures occur within the first 18 months of operation. That fact alone has made it increasingly clear that small businesses need special help, particularly in their formative period. The most crucial needs for owners and managers include the following:

- » Help in acquiring business skills in such areas as basic bookkeeping and accounting. Most failing businesses don't know their financial position. Even if the order book is full, the cash can still run out.
- » Knowledge of what sorts of finance are available and how to put themselves in the best possible position to raise money. Surprisingly, funds aren't in short supply. Rather, problems lie in the business proposition itself or, more often, in the way in which the owner makes the proposition to the financier.
- » Information with which to make realistic market assessments of the size and possibilities of their chosen market. Over-optimism about the size and ease with which a market can be reached is a common mistake.
- » Skills and tools to grow their businesses into valuable assets to pass on to family members or to sell and then sail off into the sunset.

This book gives you help in all these areas.

In addition, every business needs a *business plan*, a statement of business purpose, with the consequences of each element of that purpose spelled out in financial terms. You must describe what you want your business to do – who its potential customers are, how much they're likely to spend, who can supply you and how much their supplies cost. Then you must translate those plans and projections into cash – how much your business needs, how much you already have and how much you expect 'outsiders' to put in. This plan also helps you to avoid catching the 'common cold' of small businesses – underestimating the amount of start-up capital you need. Going back to a bank and asking for 30 per cent more funding six months after opening your doors and retaining any credibility at all is difficult, if not impossible. Yet, new businesses consistently underestimate how much money they need to finance their growth. Many people have never prepared a business plan, don't know how to start and need information. That's where this book comes in. It gives you the information you need to formulate and follow a business plan.

The book is also invaluable to innovators, who have special problems of communication and security when they try to translate their ideas into businesses. All too often, their inventions are left for other countries to exploit, or they feel unhappy about discussing ideas, believing that a patent is their only protection. However, more often than not, these business owners simply don't know who to talk to,

little realising that sophisticated help is often close at hand. Thus this book illuminates a path from the laboratory to the market place so that small firms and inventors can see a clear route.

Starting a Business For Dummies can help you succeed no matter what kind of business expertise you're looking for. If you have a great and proven business idea, you may want to plug straight into finding out how to raise finance. If you need more than just yourself to get your great business idea off the ground, you may want to discover how to find great employees or perhaps a business partner to take some of the financial and emotional strain. This book is set up so that you can dip in and out of it in a number of ways depending on your situation.

- » If you haven't started a business before, or been profit accountable for part of an enterprise, you may want to start at the beginning and work your way through.
- » If you're more experienced, you may start by selecting the areas you're less knowledgeable about to fill in the gaps, and then work outwards from there.
- » If you're quite confident in the business world, you can use this book as a guide and mentor to review a particular topic. You can even use it to plan to sell your business after it's established and move on to a different challenge.
- » If you learn by example, you may want to flip through the book, using the True Story icon as your guide. The text next to this icon highlights 'straight from the horse's mouth' examples of how entrepreneurs have tackled specific situations successfully, be it finding a partner, raising finance or getting a free grant from the government.

Foolish Assumptions

This book gathers together the essential, need-to-know information about getting a business up and running. It assumes that you've not yet been in business but that you're giving some serious thought to starting one. It also assumes that you can produce and deliver products or services that people will be willing to pay you for. These products and services can be anything – you're limited only by your imagination. Finally, this book assumes that you don't already know everything there is to know about starting your own business but that you're eager to get cracking.

Icons Used in This Book

To help you pinpoint vital information, I've placed icons throughout the text that highlight nuggets of knowledge.



TIP

This icon calls your attention to particularly important points and offers useful advice on practical topics.



REMEMBER

The Remember icon serves as a friendly reminder that the topic at hand is important enough for you to make a note of.



JARGON
ALERT

Business, like any specialist subject, is awash with specialised terms and expressions, some of which may not be familiar to you. This icon draws your attention to these.



TRUE
STORY

When you see this icon, I'm alerting you to the fact that I'm using a practical example showing how another business starter has tackled a particular topic. These examples are usually businesses facing today's difficult environment, and often you can apply the example to your own business.



WARNING

Proceed with caution; look left and right before crossing. In fact, think carefully about crossing at all when you see this icon, which alerts you to potential dangers.



TECHNICAL
STUFF

This icon refers to specialised business facts and data that are interesting as background data but not essential for you to know. You can skip paragraphs marked by this icon without missing the point – but reading them may help you build credibility with outside investors and partners.

Beyond the Book

As you travel on your journey of discovery through starting up a business, you can augment what you read here by checking out some of the access-anywhere extra information that is hosted online. You can find the book's cheat sheet by going to Dummies.com and typing "Starting a Business For Dummies UK edition Cheat Sheet" in the search box.

Where to Go from Here

Take a minute to thumb through the table of contents and get comfortable with the topics the book covers. Pick a chapter that strikes a particular chord with the aspect of starting a business that's uppermost in your mind, such as finding the money or doing business online. Read that and see where it leads you. You can also use Chapter 6, 'Preparing the Business Plan', as a framework for gathering knowledge and dive into the other chapters as you go. If all else fails, start at the beginning. That technique has a pretty good track record.

1 Getting Started with Your New Business

IN THIS PART . . .

Use your knowledge of business cycles to get your business off to the best possible start, and appreciate the effect that the state of the wider economy will have on your business.

Lay the groundwork for opening your doors for business either at home or in dedicated premises.

Check out your skills and aptitudes and see how they compare to the business idea you have in mind.

Investigate your idea and its market in detail.

- » Getting to grips with the basics of business strategy
- » Working up to opening up
- » Measuring your business's viability
- » Growing for success

Chapter **1**

Preparing for Business

Since the last edition of this book, a host of well-established companies with decades of experience behind them have been rocked to their foundations. Burton, Debenhams, Dorothy Perkins, Jaeger, Le Pain Quotidien, Oddbins, Pizza Express and Victoria's Secret are just a few of the companies that have hit the buffers in the UK. Big-name catastrophes in the US include companies that have been around for over a century like Hertz, JCPenney and Brooks Brothers (which still hopes for life in some form after filing for bankruptcy).

According to figures from the Office for National Statistics (ONS), the number of failed UK businesses has averaged more than 330,000 annually over the past three years. This tough landscape is on top of conditions the past few decades that have seen unemployment pass 11 per cent, inflation hit 16 per cent, interest rates of 17 per cent and profits reduced by 35 per cent. 'Normal' in the business world is bumpy in the best of conditions.

However tough it is out there, plenty of great businesses always seem to get underway even in the roughest of conditions. Microsoft started in 1975 when unemployment and inflation were heading up and the economy heading down. In 2000 as the internet bubble burst, Justine Roberts set up Mumsnet, the successful website and internet community that now has over 15 million monthly users. In the same year, Baroness Martha Lane Fox and Brent Hoberman CBE launched Lastminute.com, one of a handful of survivors of the dot-com bubble. As the financial crisis of 2008–2010 set in, Holly Tucker and Sophie Cornish got serious

funding for Not On The Highstreet. Also in 2008, Alex Chesterman and Simon Kain launched Zoopla, the property search website.

Your business start-up idea may be good and it may even be great, but ideas are often two a penny. The patent office is stuffed full of great ideas for inventions that have never returned tuppence to the inventors, regardless of how much time and money they spend inventing them. When starting a business, good ideas aren't enough. It's how you plan, how you prepare and how you implement your ideas that makes all the difference between success and failure. This chapter sets the scene to help you feel well-prepared for the journey ahead.

Understanding the Enduring Rules of Business Strategy

When you're engulfed by enthusiasm for an idea for a new business or engaged in the challenge of getting it off the ground, you can easily miss out on the knowledge you can gain by lifting your eyes up and taking the big picture on board too. You won't gain much from taking aim at the wrong target from the outset!

Credit for devising the most succinct and usable way to get a handle on the big picture has to be given to Michael E. Porter, who trained as an economist at Princeton and took his MBA at Harvard Business School. Porter's research led him to conclude that two factors above all influence a business's chances of making superior profits – surely an absolute must if you're going to all the pain of working for yourself:

- » **The attractiveness or otherwise of the industry in which it primarily operates.** That's down to your research, a subject I cover in Chapters 2 and 4.
- » **How the business positions itself within the industry in terms of an organisation's sphere of influence.** In that respect, a business can only have a cost advantage if it can make products or deliver services for less than others. Alternatively, the business may be different in a way that matters to consumers, so that its offers are unique, or at least relatively so.

Porter added a further twist to his prescription. Businesses can follow a cost advantage path or a differentiation path industry wide, or they can take a third path – they can concentrate on a narrow specific segment with cost advantage or differentiation. This path he termed *focus strategy*, which I discuss in the following sections.

Focusing on focus – and a bit more besides

Whoa up a minute. Before you can get a handle on focus, you need to understand exactly what the good professor means by *cost leadership* and *differentiation*, because the combination of those provides the most fruitful arena for a new business to compete.

Cost leadership

Don't confuse low cost with low price. A business with low costs may or may not pass those savings on to customers. Alternatively, the business can use low costs alongside tight cost controls and low margins to create an effective barrier to others considering entering or extending their penetration of that market.

Businesses are most likely to achieve low-cost strategies in large markets, requiring large-scale capital investment, where production or service volumes are high and businesses can achieve economies of scale from long runs. If you've deep pockets, or can put together a proposition that convinces the money men to stump up the cash, this avenue may be one to pursue. (I cover everything you need to put together a great business plan in Chapter 6.)

Ryanair is a classic example of company that analysed every component of its business, letting it cut costs by using less popular airports, ditching meals and free baggage while leaving the essential proposition – we fly you from point A to point B – intact. This plan proved enough of a strategy to give bigger, more established rivals such as British Airways a few sleepless nights.

Differentiation

The key to *differentiation* (ensuring that your product or service has a unique element that makes it stand out from the rest) is a deep understanding of what customers really want and need and, more importantly, what they're prepared to pay more for. Apple's opening strategy was based around a 'fun' operating system based on icons, rather than the dull MS-DOS. This belief was based on Apple's understanding that computer users were mostly young and wanted an intuitive command system and the 'graphical user interface' delivered just that. Sony and BMW are also examples of differentiators. Both have distinctive and desirable differences in their products. Neither they nor Apple offer the lowest price in their respective industries; customers are willing to pay extra for the idiosyncratic and prized differences embedded in their products.

Consumers can be a pretty fickle bunch. Dangle something faster, brighter or just plain newer and you can usually grab their attention. Your difference doesn't have to be profound or even high-tech to capture a slice of the market. Book buyers

rushed in droves to Waterstones for no more profound a reason than that its doors remained open in the evenings and on Sundays, when most other established bookshops were firmly closed.

Focus

Your patience is about to be rewarded. Now I can get to the strategy that Porter reckoned was the most fruitful for new business starters to plunge into.

Focused strategy involves concentrating on serving a particular market or a defined geographic region. The world's largest furniture retailer, IKEA, for example, targets young, white-collar workers as its prime customer segment. Ingvar Kamprad, an entrepreneur from the Småland province in southern Sweden, who founded the business in the late 1940s, offers home furnishing products of good function and design at prices young people can afford. IKEA achieves this quality and price by using simple cost-cutting solutions that don't affect the quality of products. (You can read more about Kamprad in the sidebar 'Less is more'.)

Businesses often lose their focus over time and periodically have to rediscover their core strategic purpose. Procter & Gamble is an example of a business that had to refocus to cure weak growth. In 2000 the company was losing share in seven of its top nine categories, and had lowered earnings expectations four times in two quarters. This situation prompted the company to restructure and refocus on its core business: big brands, big customers and big countries. Procter & Gamble sold off non-core businesses, establishing five global business units with a closely focused product portfolio. Company sales in the first quarter of 2021, a challenging year if ever there was one, were \$19.3 billion, a 9 per cent increase over the prior year.



TRUE
STORY

LESS IS MORE

Furniture company IKEA (www.ikea.com) was founded by Ingvar Kamprad when he was just 17. Kamprad cut his teeth selling matches to his neighbours at the age of 5, followed by spells selling flower seeds, greeting cards, Christmas decorations and eventually furniture. Before he died in 2018, Kamprad was worth £16 billion, and lived frugally in keeping with the functional nature of the IKEA brand. He lived in a bungalow, flew easyJet and drove an 18-year-old Volvo. Once when he arrived at a gala dinner to collect a business award, the security guard turned him away because he saw Kamprad getting off a bus. Kamprad and his wife Margaretha were often seen dining in inexpensive restaurants. He even did his own food shopping in the afternoon when prices were lower – and even then haggled prices down.