



Making Everything Easier!™

4th Edition

UK Edition

Starting a Business

FOR
DUMMIES[®]
A Wiley Brand

Learn to:

- Test the feasibility of your idea and size up the competition
- Prepare your business plan and secure funding
- Trim costs, increase margins and learn budgeting for beginners
- Build an online presence and find ways to grow your business

Colin Barrow

Author of *Business Plans For Dummies*[®]



Starting a Business

FOR
DUMMIES[®]
A Wiley Brand

4th Edition

by Colin Barrow

FOR
DUMMIES[®]
A Wiley Brand

Starting a Business For Dummies® , 4th Edition

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

This edition first published 2014

© 2014 John Wiley & Sons, Ltd, Chichester, West Sussex.

Registered office

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

For details of our global editorial offices, for customer services and for information about how to apply for permission to reuse the copyright material in this book please see our website at www.wiley.com.

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 or otherwise, except as permitted by the UK Copyright, Designs and Patents Act 1988, without the prior permission of the publisher.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at www.dummies.com. For more information about Wiley products, visit www.wiley.com.

Designations used by companies to distinguish their products are often claimed as trademarks. All brand names and product names used in this book are trade names, service marks, trademarks or registered trademarks of their respective owners. The publisher is

not associated with any product or vendor mentioned in this book.

LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY: WHILE THE PUBLISHER AND AUTHOR HAVE USED THEIR BEST EFFORTS IN PREPARING THIS BOOK, THEY MAKE NO REPRESENTATIONS OR WARRANTIES WITH THE RESPECT TO THE ACCURACY OR COMPLETENESS OF THE CONTENTS OF THIS BOOK AND SPECIFICALLY DISCLAIM ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. IT IS SOLD ON THE UNDERSTANDING THAT THE PUBLISHER IS NOT ENGAGED IN RENDERING PROFESSIONAL SERVICES AND NEITHER THE PUBLISHER NOR THE AUTHOR SHALL BE LIABLE FOR DAMAGES ARISING HEREFROM. IF PROFESSIONAL ADVICE OR OTHER EXPERT ASSISTANCE IS REQUIRED, THE SERVICES OF A COMPETENT PROFESSIONAL SHOULD BE SOUGHT.

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.

A catalogue record for this book is available from the British Library.

ISBN 978-1-118-83734-4 (paperback); ISBN 978-1-118-83724-5 (ebk);

ISBN 978-1-118-83729-0 (ebk)

Printed in Great Britain by TJ International, Padstow, Cornwall

10 9 8 7 6 5 4 3 2 1

Starting a Business For Dummies, 4th Edition

Visit

www.dummies.com/cheatsheet/startingabusinessuk to view this book's cheat sheet.

Table of Contents

Introduction

[About This Book](#)

[Foolish Assumptions](#)

[Icons Used in This Book](#)

[Beyond the Book](#)

[Where to Go From Here](#)

Part I: Getting Started with Your New Business

Chapter 1: Preparing for Business

[Understanding the Enduring Rules of Business Strategy](#)

[Focusing on focus - and a bit more besides](#)

[Appreciating the forces at work in your sector](#)

[Recognising the first-to-market fallacy](#)

[Getting in Shape to Start Up](#)

[Assessing your abilities](#)

[Discovering a real need](#)

[Checking the fit of the business](#)

[Confirming Viability](#)

[Researching the market](#)

[Doing the numbers](#)

[Raising the money](#)

[Writing up the business plan](#)

[Going for Growth](#)

[Gaining economies of scale](#)

[Securing a competitive advantage](#)

[Retaining key staff](#)

[Gaining critical business mass](#)

Chapter 2: Doing the Groundwork

[Understanding the Small Business Environment](#)

[Defining Small Business](#)

[Looking at the Types of People Who Start Businesses](#)

[Making your age an asset](#)

[Considering location](#)

[Winning with women](#)

[Being educated about education](#)

[Coming Up with a Winning Idea](#)

[Ranking popular start-up ideas](#)

[Going with fast growth](#)

[Spotting a gap in the market](#)

[Revamping an old idea](#)

[Using the Internet](#)

[Solving customer problems](#)

[Creating inventions and innovations](#)

[Marketing other people's ideas](#)

[Being better or different](#)

[Finding a contract in the public sector](#)

[Banning Bad Reasons to Start a Business](#)

[Steering clear of bad assumptions](#)

[Avoiding obvious mistakes](#)

[Recognising that the Economy Matters](#)

[Spotting cycles](#)

[Readying for the ups and downs](#)

[Preparing to Recognise Success](#)

[Measuring business success](#)

[Exploring the myth and reality of business survival rates](#)

Chapter 3: Can You Do the Business?

[Deciding What You Want From a Business](#)

[Gaining personal satisfaction \(or, entrepreneurs just wanna have fun\)](#)

[Making money](#)

[Saving the planet](#)

[Exploring Different Types of Business](#)

[Selling to other businesses](#)

[Opening all hours](#)

[Making products](#)

[Servicing customers](#)

[Working from Home](#)

[Finding the space](#)

[Checking out the rules](#)

[Dealing with the family](#)

[Vanquishing visitors](#)

[Assessing Yourself](#)

[Discovering your entrepreneurial attributes](#)

[Working out a business idea that's right for you](#)

[Figuring out what you're willing to invest](#)

[Weighting your preferences](#)

Chapter 4: Testing Feasibility

Finding Enough Product or People

[How much is enough?](#)

[Buying in equipment and supplies](#)

[Hiring in help](#)

Sizing Up the Market

[Figuring out what you need to know](#)

[Finding your segment of the market](#)

[Checking out your competition](#)

[Budgeting for your research](#)

[Doing the preliminary research](#)

[Conducting the research](#)

Working Out Whether You Can Make Money

[Estimating start-up costs](#)

[Forecasting sales](#)

[Exceeding breakeven](#)

Part II: Making and Funding Your Plan

Chapter 5: Structuring Your Business

Choosing the Right Structure

Going into Business by Yourself

[Advantages](#)

[Disadvantages](#)

[Settling on sole-trader status](#)

Building up to Network Marketing

[Evaluating the pros and cons](#)

[Distinguishing pyramids from network marketing](#)

Working with a Limited Number of Other People

[Taking on an existing business](#)

[Forming a partnership](#)

[Looking at limited partnerships](#)

[Checking out co-operatives](#)

Finding Your Way to Franchising

[Looking at franchise types](#)

[Defining a franchise](#)

[Evaluating a franchise opportunity](#)

Founding a Larger Company

[Opting for a limited company](#)

[Buying out a business](#)

Looking at Legal Issues in Marketing

[Naming your business](#)

[Looking at logos](#)

[Protecting patents](#)

[Registering a trademark](#)

[Detailing your design](#)

[Controlling a copyright](#)

[Abiding by fair business rules](#)

[Setting terms of trade](#)

[Describing your goods](#)

[Dealing with payment problems](#)

Chapter 6: Preparing the Business Plan

Finding a Reason to Write a Business Plan

[Building confidence](#)

[Testing your ideas](#)

[Showing how much money you need](#)

[Providing planning experience](#)

[Satisfying financiers' concerns](#)

Writing Up Your Business Plan

[Defining your readership](#)

[Creating the plan](#)

[Maintaining confidentiality](#)

[Doing due diligence](#)

Using Business Planning Software

[Recognising the limits of software](#)

[Reviewing packages](#)

Presenting Your Plan

[Starring in show time](#)

[Handling feedback](#)

[Making an elevator pitch](#)

Chapter 7: Getting Help

Connecting with Government Services

[Accessing national government support](#)

[Relating to a region](#)

Choosing Small Business Associations

[The Federation of Small Businesses](#)

[Forum of Private Business](#)

[The British Chambers of Commerce](#)

[A few more strings to your bow](#)

Universities and Colleges

Entering an Incubator

[Finding the right type of incubator](#)

[Getting into an incubator](#)

[Considering the cost](#)

[Finding out more](#)

Assisting Inventors

Helping Young Entrepreneurs

Chapter 8: Finding the Money

Assessing How Much Money You Need

[Projecting receipts](#)

[Estimating expenses](#)

[Working out the closing cash balances](#)

[Setting out your cash-flow projection](#)

[Testing your assumptions](#)

Reviewing Your Financing Options

[Deciding between debt capital and equity capital](#)

[Examining your own finances](#)

Determining the Best Source of Finance for You

[Considering the costs](#)

[Sharing ownership and control](#)

[Limiting personal liability](#)

Going for Debt

[Borrowing from banks](#)

[Going with the government](#)

[Financing cash flow](#)

[Getting physical](#)

[Uniting with a credit union](#)

[Grabbing cash locally](#)

[Borrowing from family and friends](#)

Sharing Out the Spoils

[Benefiting from business angels](#)

[Going for venture capital](#)

[Looking to corporate venturing](#)

[Understanding due diligence](#)

Finding Free Money

[Getting a grant](#)

[Winning money](#)

[Following the crowd](#)

Chapter 9: Considering Your Mission

[Developing Your Concept](#)

[Composing Your Mission Statement](#)

[Seeing the Vision Thing](#)

[Setting Objectives and Goals](#)

Chapter 10: Marketing and Selling Your Wares

[Making Up the Marketing Mix](#)

[Defining Your Product or Service Parameters](#)

[Using Advertising to Tell Your Story](#)

[Considering the customer's point of view](#)

[Making an exhibition of yourself](#)

[Setting advertising objectives](#)

[Deciding the budget](#)

[Defining the message](#)

[Choosing the media](#)

[Choosing the frequency](#)

[Writing a leaflet](#)

[Using the Internet for viral marketing](#)

[Providing opportunities to see](#)

[Figuring your bang-for-the-buck ratio](#)

Getting into the News

[Deciding who to contact](#)

[Following through](#)

[Using Blogs and Social Networks](#)

[Selling and Salesmanship](#)

[Telling the difference between selling and marketing](#)

[Selling yourself](#)

[Outsourcing selling](#)

[Measuring results](#)

[Settling On a Price](#)

[Caring about business conditions](#)

[Working to your capacity](#)

[Understanding consumer perceptions](#)

[Skimming versus penetrating](#)

[Avoiding setting prices too low](#)

[Pondering Place and Distribution](#)

[Choosing a location](#)

[Selecting a distribution channel](#)

[Part III: Staying in Business](#)

[Chapter 11: Employing People](#)

[Finding Great Employees](#)

[Deciding on full- or part-timers](#)

[Recruiting and selecting](#)

[Testing to find the best](#)

[Exploring Other Ways of Recruiting](#)

[Using agencies](#)

[Using Job Centre Plus](#)

[Recruiting over the Internet](#)

[Outsourcing jobs](#)

[Motivating and Rewarding Employees](#)

[Getting the best out of employees](#)

[Dealing with difficult or demotivated employees](#)

[Keeping motivation in the family](#)

[Rewarding achievements](#)

[Staying on the Right Side of Employment Law](#)

[Keeping employment records](#)

[Preparing contracts of employment](#)

[Working legal hours](#)

[Granting leave](#)

[Avoiding discrimination](#)

[Keeping healthy and safe](#)

[Chapter 12: Operating Effectively](#)

[Proposing Premises](#)

[Calculating requirements](#)

[Finding the right premises](#)

[Renting or owning?](#)

[Sorting out equipment](#)

[Taking the Make-or-Buy Decision](#)

[Making it yourself – pros and cons](#)

[Outsourcing – a low investment option](#)

[Setting quality standards](#)

[Choosing a Supplier](#)

[Evaluating trading terms](#)

[Building a relationship](#)

[Buying online](#)

[Minimising Risk and Assessing Liability](#)

[Protecting your employees](#)

[Covering yourself against an employee suing](#)

[Protecting assets](#)

[Covering loss of profits](#)

[Goods in transit](#)

[Protecting yourself](#)

[Guaranteeing goods and services](#)

[Dissecting Directors](#)

[Finding and Choosing Business Advisers](#)

[Tallying up an accountant](#)

[Investing in a bank](#)

[Soliciting for a lawyer](#)

[Managing a consultant](#)

[Taking Cyber Security Seriously](#)

[Recognising common types of cyber crime](#)

[Adopting preventative measures](#)

[Making a Virtue Out of Going Green](#)

[Chapter 13: Keeping Track of Finances](#)

[Keeping the Books](#)

[Recording financial information](#)

[Starting simple with single entry](#)

[Dealing with double entry](#)

[Choosing the right accounting program](#)

[Outsourcing bookkeeping](#)

[Understanding Your Accounts](#)

[Forecasting cash flow](#)

[Reporting your profits](#)

[Accounting for Pricing](#)

[Breaking even](#)

[Pricing for profit](#)

[Building in more products](#)

[Handling price changes](#)

[Balancing the Books](#)

[A balance sheet](#)

[Categorising assets](#)

[Accounting for liabilities](#)

[Understanding reserves](#)

[Analysing Performance](#)

[Using ratios](#)

[Gearing down](#)

[Keeping on the Right Side of the Law](#)

[Carrying out an audit](#)

[Filing your accounts](#)

[Managing Your Accountant](#)

Chapter 14: Managing Your Tax Position

[Tackling Taxes for Different Types of Businesses](#)

[Figuring out sole traders and partnerships](#)

[Looking at levies on companies](#)

[Assessing the best legal structure](#)

[Paying Taxes](#)

[Valuing VAT](#)

[Minimising tax on profit](#)

[Handling Employment Taxes](#)

[Paying PAYE](#)

[Allocating national insurance](#)

[Accounting for employment taxes](#)

[Surviving a Tax Investigation](#)

Part IV: Making the Business Grow

Chapter 15: Doing Business Online

[Appreciating the Power of the Internet](#)

[Ruminating on richness versus reach](#)

[Checking out clicks and bricks](#)

[Recognising the limits – you have none!](#)

[Reviewing What You Can Do Online](#)

[Generating advertising revenue](#)

[Recruiting staff](#)

[Answering frequent questions](#)

[Carrying out market research](#)

[Establishing an Internet Presence with a Website](#)

[Deciding on content](#)

[Designing the website](#)

[Checking out competitors](#)

[Using a consultant](#)

[Registering domains](#)

[Hosting your website](#)

[Selling Goods and Services](#)

[Using third-party websites](#)

[Building a store front](#)

[Getting paid online](#)

[Fulfilling orders](#)

[Gaining Visibility](#)

[Understanding search engines](#)

[Optimising your website](#)

[Tracking Traffic](#)

Chapter 16: Improving Performance

[Checking Your Internal Systems](#)

[Keeping track of your routine](#)

[Analysing market position](#)

[Retaining Customers](#)

[Realising why retaining customers matters](#)

[Working to retain customers](#)

[Improving Productivity](#)

[Cutting costs](#)

[Increasing margins](#)

[Working smarter](#)

[Rewarding results](#)

[Budgeting for Beginners](#)

[Setting the guidelines](#)

[Analysing the variances](#)

[Budgeting from zero](#)

[Chapter 17: Exploring Strategies for Growth](#)

[Understanding the Importance of Growth](#)

[Measuring market share](#)

[Building a brand](#)

[Increasing Sales](#)

[Getting customers to buy more](#)

[Encouraging referrals](#)

[Entering new market segments at home](#)

[Selling overseas](#)

[Adding new products or services](#)

[Diversifying as a last resort](#)

[Forming Alliances](#)

[Going on the alliance trail](#)

[Investigating and approaching](#)

[Franchising Your Way to Growth](#)

[Bolting on a franchise](#)

[Weighing the advantages and disadvantages](#)

[Doing the pilot](#)

[Finding franchisees](#)

[Rolling out the franchise](#)

[Chapter 18: Becoming a Great Manager](#)

[Building a Team](#)

[Founding principles](#)

[Coaching and Training](#)

[Appraising Performance](#)

[Developing a Leadership Style](#)

[Understanding leadership](#)

[Delegating](#)

[Evolving leadership styles for growth](#)

[Managing change](#)

[Measuring Morale](#)

[Part V: The Part of Tens](#)

[Chapter 19: Ten Pitfalls to Avoid](#)

[Knowing Too Little](#)
[Being Overly Optimistic about the Market](#)
[Underestimating Start-up Time](#)
[Spending Too Much at the Start](#)
[Mistaking Cash for Profit](#)
[Choosing the Wrong Partner](#)
[Ignoring Accounting](#)
[Forgetting Working Capital](#)
[Having No Clear Competitive Advantage](#)
[Choosing the Wrong Location](#)

Chapter 20: Ten People to Talk to Before You Start

[Speaking with Your Spouse](#)
[Making Use of Your Professional Network](#)
[Benefiting from Entrepreneurs Who Started a Similar Business](#)
[Spending Time with a Friendly Banker](#)
[Reaching Out to Customers](#)
[Communicating with Your Current Boss](#)
[Calling Your Colleagues](#)
[Bringing in Your Best Friend](#)
[Reporting to an Accountant](#)
[Plugging into a Business Angel Network](#)

Chapter 21: Ten Reasons for Using Social Media

[Augmenting Your Marketing Budget](#)
[Acquiring Cost-Effective Exposure](#)
[Increasing Website Traffic](#)
[Moving up Search Engine Rankings](#)
[Improving Market Intelligence](#)
[Attracting Interest to Generate Sales Leads](#)
[Growing Real Sales](#)
[Keeping Pace with Market Leaders](#)
[Creating Loyalty](#)
[Generating Referrals](#)

About the Author

Cheat Sheet

More Dummies Products

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 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 Google and Facebook 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 Entrepreneurship Barometer, by accountancy firm Ernst & Young, has revealed that Britain is the best place 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 400,000 small firms that close their doors every year in the UK, a figure that rose sharply in the recent recession, 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.



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



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



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.



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.



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.



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

e-cheat sheet at www.dummies.com/cheatsheet/startingabusinessuk, and by going to www.dummies.com/extras/startingabusinessuk you can access three bonus articles and an extra Part of Tens chapter.

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 a 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.

Part I
**Getting Started with Your
New Business**



For Dummies can help get you started with lots of subjects. Visit www.dummies.com to learn more and do more with *For Dummies*.

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.

Chapter 1

Preparing for Business

In This Chapter

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

When you're starting a business, particularly your first business, you need to carry out the same level of preparation as you would for crossing the Gobi Desert or exploring the jungles of South America. You're entering hostile territory. A stroll down any high street in the land shows you just how tough it is out there. Since the last edition of this book, Comet, JJB Sports, Clinton Cards, Game, Borders, Barratts, Jane Norman, Habitat, Oddbins, Adams Childrenswear, Principles, Sofa Workshop, Allied Carpets, Viyella, Dewhursts, Woolworths, MFI and Zavvi/Virgin Megastore have hit the rocks. Some 53 retailers have closed 4,000 stores.

Your business idea may be good, it may even be great, but such ideas are two a penny. The patent office is stuffed full of great inventions that have never returned tuppence to the inventors who spent so much time and money filing them. And failure is pretty much a norm for business start-ups. Over the past three years, nearly half a million small firms have shut up shop in the UK alone. As if that wasn't bad enough, the small-business population has actually grown by over a quarter of a million, at a time when the economy has shrunk by

around 6 per cent. That means thousands more businesses are chasing a shrinking pot of customer spending power.

How you plan, how you prepare and how you implement your plan makes the difference between success and failure. This chapter sets the scene to make sure that you're 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, taking his MBA at Harvard Business School where he's now a professor. 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 and easyJet are examples of fairly recent business start-ups where analysing every component of the business made it possible to strip out major elements of cost (meals, free baggage and allocated seating, for example) while leaving the essential proposition - we fly you from A to 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. IKEA, for example, targets young, white-collar workers as its prime customer segment, selling through 235 stores in more than 30 countries. 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. He 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](#)'.)

Warren Buffett, one of the world's richest men, knows a thing or two about focus. His investment company combined with Mars to buy US chewing gum manufacturer Wm Wrigley for \$23 billion (£11.6 billion) in May 2008. Chicago-based Wm Wrigley, which launched its Spearmint and Juicy Fruit gums in the 1890s, has specialised in chewing gum ever since and consistently outperformed its more diversified competitors. Wm Wrigley is the only major consumer products company to grow comfortably faster than the population in its markets and above the rate of inflation. Over the past decade or so,

for example, other consumer products companies have diversified. Gillette moved into batteries used to drive many of its products by acquiring Duracell. Nestlé bought Ralston Purina, Dreyer's, Ice Cream Partners and Chef America. Both have trailed Wrigley's performance.

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.



Less is more

Furniture company IKEA was founded by Ingvar Kamprad when he was just 17, having cut his teeth on selling matches to his nearby neighbours at the age of 5, followed by spells selling flower seeds, greeting cards, Christmas decorations and eventually furniture. Worth £16 billion, Kamprad still lives frugally, in keeping with the functional nature of the IKEA brand. He lives in a bungalow, flies easyjet and drives an 18-year-old Volvo. When he arrived at a gala dinner recently to collect a business award, the security guard turned him away because he saw Kamprad getting off a bus. He and his wife Margaretha are often seen dining in cheap restaurants. He does his food shopping in the afternoon when prices are lower and even then haggles prices down.

Appreciating the forces at work in your sector