



Making Everything Easier!™

3rd Edition

# Starting a Business

FOR  
DUMMIES®

## Learn to:

- Find funding and business support in challenging times
- Trim costs, increase margins and learn budgeting for beginners
- Spot financial cycles and prepare for economic ups and downs
- Use the latest technology efficiently and profitably and create an online presence for an existing business

**Colin Barrow**

*Venture capitalist and entrepreneur*





Making Everything Easier!™

3rd Edition

# Starting a Business

FOR

# DUMMIES®

## Learn to:

- Find funding and business support in challenging times
- Trim costs, increase margins and learn budgeting for beginners
- Spot financial cycles and prepare for economic ups and downs
- Use the latest technology efficiently and profitably and create an online presence for an existing business

**Colin Barrow**

*Venture capitalist and entrepreneur*



# Starting a Business For Dummies<sup>®</sup>, 3rd Edition

**Visit**

**[www.dummies.com/cheatsheet/startingabusinessuk](http://www.dummies.com/cheatsheet/startingabusinessuk) to view this book's cheat sheet.**

## **Table of Contents**

[Introduction](#)

[Why You Need This Book](#)

[How to Use This Book](#)

[How This Book Is Organised](#)

[Part I: Getting Started](#)

[Part II: Making and Funding Your Plan](#)

[Part III: Staying in Business](#)

[Part IV: Making the Business Grow](#)

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

[Icons Used in This Book](#)

[Where to Go From Here](#)

[Part I: Getting Started](#)

[Chapter 1: Preparing for Business](#)

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

Focus, focus, focus

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

### Banning Bad Reasons to Start a Business

Steering clear of bad assumptions  
Avoiding obvious mistakes

### Recognising that the Economy Matters

Spotting cycles  
Preparing 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  
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

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 break even

## 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](#)

[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

Choosing the right packaging

Deciding on layout and content

Writing and editing

Maintaining confidentiality

Doing due diligence

### Using Business Planning Software

Recognising the limits of software

Reviewing systems

### Presenting Your Plan

Starring in showtime

Making an elevator pitch

## Chapter 7: Getting Help

[Connecting with Government services](#)  
[Linking to Local Enterprise Agencies \(LEAs\)](#)  
[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](#)

[Assisting Inventors](#)  
[Helping Young Entrepreneurs](#)

[Attracting Livewire](#)  
[Trusting the Prince's Trust](#)  
[Learning by doing – the Young Enterprise motto](#)

## [Chapter 8: Finding the Money](#)

[Assessing How Much Money You Need](#)

[Projecting receipts](#)  
[Estimating expenses](#)  
[Working out the closing cash balances](#)  
[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  
Beating the clock  
Staying flexible  
Gaining security and certainty  
Limiting personal liability

Going for Debt

Borrowing from banks  
Financing cash flow  
Getting physical  
Uniting with a credit union  
Borrowing from family and friends

Sharing Out the Spoils

Benefiting by business angels  
Going for venture capital  
Looking to corporate venturing

Finding Free Money

Getting a grant  
Winning money

## Chapter 9: Considering Your Mission

Developing Your Concept  
Composing Your Mission Statement

Thinking through your mission

Seeing the Vision Thing  
Setting Objectives and Goals

## Chapter 10: Marketing 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 in 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

### Pricing for Profit

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  
Working from home  
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 the work environment 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](#)

## [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](#)

[Calculating gross profit](#)  
[Reckoning expenses](#)  
[Appreciating the different types of profit](#)

[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 value-added tax

Minimising taxes

### Handling Employment Taxes

Paying PAYE

Allocating national insurance

Accounting for employment taxes

## Part IV: Making the Business Grow

### Chapter 15: Doing Business Online

#### Appreciating the Power of the Internet

Richness versus reach

Clicks and bricks

Recognising the limits - there are none!

## What You Can Do Online

Generating advertising revenue

Recruiting staff

Answering frequent questions

Carrying out research

## Establishing an Internet Presence

Deciding on content

Designing the website

Using a consultant

Registering domains

## Selling Goods and Services

Using third party websites

Building a store front

Getting paid online

Fulfilling orders

## Gaining Visibility

Understanding search engines

Using a submissions service

Paying for placement

Checking out competitors

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

Trimming expenses  
Increasing margins  
Working smarter  
Rewarding results

## Budgeting for Beginners

Setting the guidelines  
Analysing the variances  
Flexing the figures  
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 markets 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

Tapping into Your Local Enterprise Agency Director

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 Ways to Cut Costs

[Using a Suggestion Scheme](#)  
[Forming Smart Circles](#)  
[Going Green](#)  
[Using Less Utilities](#)  
[Stripping Out Waste](#)  
[Reducing Shrinkage](#)  
[Negotiating with Suppliers](#)  
[Going In for Benchmarking](#)  
[Getting Kitted Out for Less](#)  
[Setting Cost-cutting Priorities](#)

## [Chapter 22: Ten Steps to Prepare to Move On](#)

[Monitoring Market Prices](#)  
[Valuing Your Business](#)  
[Figuring Out Who to Sell To](#)  
[Dressing to Kill](#)  
[Finding Advisers](#)  
[Doing Due Diligence](#)  
[Earning Out Your Profits](#)  
[Starting Up Again](#)  
[Becoming a Business Angel](#)  
[Winding Up](#)

[Cheat Sheet](#)

# ***Starting a Business For Dummies<sup>®</sup>, 3rd Edition***

**by Colin Barrow**



## **Starting a Business For Dummies<sup>®</sup>, 3rd Edition**

Published by  
**John Wiley & Sons, Ltd**  
The Atrium  
Southern Gate  
Chichester  
West Sussex  
PO19 8SQ  
England

E-mail (for orders and customer service enquires): [cs-books@wiley.co.uk](mailto:cs-books@wiley.co.uk)

Visit our Home Page on [www.wiley.com](http://www.wiley.com)

Copyright © 2011 John Wiley & Sons, Ltd, Chichester, West Sussex, England

Published by John Wiley & Sons, Ltd, Chichester, West Sussex

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 under the terms of the Copyright, Designs and Patents Act 1988 or under the terms of a

licence issued by the Copyright Licensing Agency Ltd, Saffron House, 6-10 Kirby Street, London EC1N 8TS, UK, without the permission in writing of the Publisher. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Ltd, The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, England, or emailed to permreq@wiley.co.uk, or faxed to (44) 1243 770620.

**Trademarks:** Wiley, the Wiley Publishing logo, For Dummies, the Dummies Man logo, A Reference for the Rest of Us!, The Dummies Way, Dummies Daily, The Fun and Easy Way, Dummies.com 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. All other trademarks are the property of their respective owners. Wiley Publishing, Inc., is not associated with any product or vendor mentioned in this book.

**Limit of Liability/Disclaimer of Warranty:** The contents of this work are intended to further general scientific research, understanding, and discussion only and are not intended and should not be relied upon as recommending or promoting a specific method, diagnosis, or treatment by physicians for any particular patient. The publisher, the author, AND ANYONE ELSE INVOLVED IN PREPARING THIS WORK 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 fitness for a particular purpose. In view of ongoing research, equipment modifications, changes in governmental regulations, and the constant flow of information relating to the use of medicines, equipment, and devices, the reader is urged to review and evaluate the information provided in the package insert or instructions for each medicine, equipment, or device for, among other things, any



changes in the instructions or indication of usage and for added warnings and precautions. Readers should consult with a specialist where appropriate. The fact that an organization or Website is referred to in this work as a citation and/or a potential source of further information does not mean that the author or the publisher endorses the information the organization or Website may provide or recommendations it may make. Further, readers should be aware that Internet Websites listed in this work may have changed or disappeared between when this work was written and when it is read. No warranty may be created or extended by any promotional statements for this work. Neither the publisher nor the author shall be liable for any damages arising herefrom.

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 317-572-3993, or fax 317-572-4002.

For technical support, please visit [www.wiley.com/techsupport](http://www.wiley.com/techsupport).

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

British Library Cataloguing in Publication Data: A catalogue record for this book is available from the British Library

ISBN: 978-0-470-97810-8 (paperback), ISBN: 978-0-470-97920-4 (ebk), ISBN: 978-0-470-97834-4 (ebk), ISBN: 978-0-470-97835-1 (ebk)

Printed and bound in Great Britain by TJ International, Padstow, Cornwall

10 9 8 7 6 5 4 3 2 1



# About the Author

**Colin Barrow** was, until recently, Head of the Enterprise Group at Cranfield School of Management, where he taught entrepreneurship on the MBA and other programmes. He is also a visiting professor at business schools in the US, Asia, France, and Austria. His books on entrepreneurship and small business have been translated into twenty languages including Russian and Chinese. He worked with Microsoft to incorporate the business planning model used in his teaching programmes into the software program, Microsoft Business Planner. He is a regular contributor to newspapers, periodicals and academic journals such as the Financial Times, The Guardian, Management Today, and the International Small Business Journal.

Thousands of students have passed through Colin's start-up and business growth programmes, going on to run successful and thriving enterprises, and raising millions in new capital. He is on the board of several small businesses, is a University Academic Governor, and has served on the boards of public companies, venture capital funds, and on Government Task Forces.

# Author's Acknowledgments

I would like to thank everyone at Wiley for the opportunity to write and update this book – as well as for their help,

encouragement, feedback, and tireless work to make this all happen.

# Publisher's Acknowledgements

We're proud of this book; please send us your comments through our Dummies online registration form located at [www.dummies.com/register/](http://www.dummies.com/register/).

Some of the people who helped bring this book to market include the following:

## *Commissioning, Editorial, and Media Development*

**Project Editor:** Jo Jones (Previous Edition: Steve Edwards)

**Commissioning Editor:** Samantha Spickernell

**Assistant Editor:** Ben Kemble

**Development Editor:** Sally Lansdell

**Proofreader:** Charlie Wilson

**Production Manager:** Daniel Mersey

**Publisher:** David Palmer

**Cover Photos:** © Picsfive

**Cartoons:** Ed McLachlan

*Composition Services*

**Sr. Project Coordinator:** Kristie Rees

**Layout and Graphics:** Samantha K. Cherolis, Corrie Socolovich

**Proofreader:** John Greenough

**Indexer:** Ty Koontz

# Introduction

---

If you've 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:

- ✓ You saw Lehman Brothers' staff queuing outside their offices with cardboard boxes and don't want that to happen to your business.
- ✓ A relative, hopefully a distant and elderly one, has died and left you 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 have a great idea for a world-beating product that no one has ever thought of but every one of the world's billion 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.

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 United Kingdom, 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 either 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.

## Why You Need 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:

- ✓ Help in acquiring business skills in such areas as basic bookkeeping and accounting. Most failing businesses simply 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. Problems lie, rather, 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