FinancialDirector

In Your Business Series: The start-up

In the first of a series of articles looking at companies from every phase from start-up to exit/sale Gary Jesson looks at starting up in the current climate

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STARTING UP A BUSINESS in the current climate can be challenging, however harsh market conditions can also create opportunities for those with a well thought out, funded and researched business idea willing to enter the market.

Some of the key stages that a start-up business would experience and considerations to get the most out of each phase include:

Business plan
It is important to focus attention on the executive summary as this should capture the compelling reasons why a stakeholder should support the business. Many will not read beyond this part of the plan. The business plan has to highlight the market need as this can remain unclear even within some ‘rather cleverly written' documents.

The financial information also has to stack up when analysed. Obvious though this may sound, it doesn't always happen. Sales forecasts should be prudent, cashflow projections should be accurate, and also allow for the unexpected. It is also important to get someone else to ‘sense' check the plan and build ‘what if' scenarios to demonstrate that even if things don't go to plan, then the wheels won't fall off. Responsibilities and specialisms of key team members should be highlighted and where necessary, gaps identified.

Funding options
Many businesses automatically resort to private equity or venture capital funding when an investment need arises. Acquiring funding through venture capital can be a long and tedious process especially in the current climate. There may be alternative sources of funding which can be considered especially when founding directors want to retain high levels of ownership and require quick decisions. As well as the traditional sources - ‘friends, family and fools' - there are now other ‘non traditional' alternatives springing up including ‘peer to peer' lending, ‘crowd funding' and business angels.

According to a recent BBC report, lending via three prime peer-to-peer lending sources topped £250m in June this year. These types of funds typically come from high net worth individuals looking for good returns and perhaps more importantly wishing to pass on their knowledge and experience to fledgling companies. In addition, don't forget former colleagues, seed funders and even government breaks such as R&D tax credit as alternative source of funding.

Systems and reporting
Appropriate systems and infrastructure are required to scale properly and it is important to get this right as early as possible to lay the foundations for growth in the beginning. To minimise the impact of selecting wrong systems that may not be useful, it is important to consider flexible options such as the cheaper and more flexible cloud computing.

Too many times, start up companies often run out of cash, sooner than planned, because they have bought unnecessary software and hardware. It is also important to set up proper reporting processes from day one, to avoid being knocked off track by regulators, tax authorities or banks through investigations, interest or covenant breaches.

Resource management
It is important to get the right set of skills in a start-up on a cost effective basis. A central challenge in the start-up stage is to select talented and experienced staff and to set up successful teams. At this stage, the owner often inappropriately tries to wear several hats and micro-manage everything often to the detriment of the business.

Eventually most realise they need to delegate and step away from the more specialist areas especially where their skills are limited- however often this can be too late and the damage done. There are now many ‘pay as you use' service providers in areas such as finance, HR, marketing and IT who can provide an extremely cost effective and scalable solution to start up companies.

Exit
It is never too early to think of an exit even in the start up stage. If a business is structured correctly, it will allow management and investors to maximise their return.

Other business start up implications
Start-up businesses are usually prone to a degree of financial uncertainty and risk. It is important to be aware of the challenges which may be faced in the high-pressured start-

up environment. Red tape obligations have to be dealt with promptly and accurately to avoid incurring fines and penalties. Awarding of options, dividends, salary and pensions should also be considered carefully.

When considering funding, determine which sources work best and remember that some costs such as interest payments on loan finance are usually tax deductible, but dividends are not. Also consider obtaining funding where investors can take advantage of tax breaks using schemes like the Enterprise Investment Scheme and the recently introduced Seed Enterprise Investment Scheme. Getting advance assurance from HMRC that your business will qualify for these will also help when raising funds. Get help in these areas, so you do not unwittingly fall foul of some of the rules and preclude the business from using them in the future.

Finally, also consider director service agreements, shareholder agreements, terms and conditions, protection of intellectual property and insurance. Showing that you are aware of these issues and have already taken some action will also help when seeking investors as it demonstrates a well thought out plan and the likelihood of a well run business.

The key to a successful business is getting it right from the outset, ensuring you have a product or service which customers want and that you recognise your weaknesses and seek help from specialists if required.

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