

# Chapter 7 Requirements

In the last Chapter I covered a little about what you need to invest in your business or company to get it up and running during the pre-launch period.

Depending on the business and your offering, this can be a little or a lot. Even if you decide to join one of those networking businesses where the 'joining fee' is quite low you still have to invest more money to get started - there are lots of hidden extras that you may not be aware of or told about.

Some of the key things that people starting their own businesses invest in in advance are:

- Training and Education
- License or Franchise fees
- Stock and supplies
- Equipment for production or delivery
- Rent. Heat and light
- IT and telecoms
- Advertising and other marketing

And so on; this list is by no means comprehensive.

Remember, if you pay for all or any of this and have a Limited Company, it goes into the Directors' Loan Account. You will get it back when the business is successful.

Before you start it's a good idea to figure out all that you need to invest or have already invested in getting the business off the ground - you'll be surprised.

## **Fixed Assets**

In the previous Chapter I deliberately didn't cover the concept of 'fixed assets' and although this is really part of the accounting and

finance domain I think it's more useful to cover it here under business requirements.

There are some 'things' that your business needs that you purchase once and are used for some years before they need replacing, and some of course might not.

'Fixed Assets' would include:

- Vehicles used exclusively for the business
- Plant and machinery used to make or do things
- Computer equipment including mobile phones used exclusively for the business
- Uniforms, workwear, safety clothing etc.
- Safety and access equipment and fittings required by law
- Fixtures and fittings including office furniture and the like

And so on - anything used on a continuing basis; and this includes things like reference books bought for training and development purposes or needed in the delivery of any service.

Fixed Assets are treated in a special way. First of all, the cost of purchase is deducted from your profit figure and then there is what is called a 'depreciation' expense, and different types of assets (including land and property) have different standard rates of depreciation allowed by the tax authorities.

Computer equipment for example is depreciated at 33% each year so if you buy a computer in year 1 that costs £1000, in year 2 £333 is charged as an expense in your accounts as its 'value' depreciates.

It's a false economy to buy 'cheap' poorer quality equipment, it still depreciates at the same rate, but you'll probably have to replace it sooner before you get the full benefit of depreciation.

When you purchase your business equipment you need to be mindful as well of the workload that the kit is likely to need to endure. What is appropriate now at the beginning may not be able to cope as your business grows.

Work out early on what you need in terms of ‘kit’ because you don’t want to find yourself in a position where you don’t have the equipment to do the job.

## **Consumables**

As well as equipment you may need to invest up front in stock if you sell or resell a product and also if you’re providing a service that has product content.

Like the Cash Flow Forecast it’s a good idea to generate a similar stock rotation forecast predicting how much you will need to fulfil your expected orders, especially if your business in in any way ‘seasonal’.

Similarly, with supplies - these are consumables like paper and printer ink, advertising materials such as flyers and so forth, and business cards.

So many times, I encounter business owners who have “run out of cards” and have to put their details on a scrap of paper - what does that do to their professional credibility?

As opposed to stock, supplies are materials that may be consumed in delivery of a service or product but cannot be directly attributed to any single delivery - cleaning materials for example.

Next you need to consider premises and vehicles and again, I’ve left this out of the Finance Chapter to cover it in more detail here.

## **Vehicles**

Let’s consider vehicles first.

If you use your own vehicle it’s pretty simple. You ‘charge’ a fixed number of pence per mile as specified in the tax rules for all the mileage that is specifically ‘business’. Yes, you have to keep a log, but there’s an app for that, provided you remember to switch it on!

You may one day be asked to provide the log so make sure it’s available if requested.

Note that if you do use a personal vehicle for business purposes (other than travelling to and from your business premises) then you **must** declare this to your motor insurance company; otherwise you will be ‘un-insured’ if you have an incident when you are out on business.

If you have a company owned vehicle that is used exclusively for business, then it’s simply a case of recording all the fuel and maintenance costs and charging them as an expense.

The problem arises when you have a company vehicle that you use for ‘personal mileage’ as well. What happens here is that you incur a penalty on your personal tax - your tax code changes and you pay more tax on your personal account. The same applies if you use a company mobile phone for personal calls.

It’s always best to use your *own* vehicle and your *own* phone and charge against your business for business use.

## **Home Office**

If you use a room, or part of a room, in your home as your office you can charge a ‘Home as Office’ expense. The way this is worked out is based on the number of rooms in the house excluding bathrooms and kitchen.

So if you have three bedrooms, a living room and a dining room and use one of those rooms as your office you can charge 20% of your heating and lighting expenses to your business.

If you use your home broadband and phone for business purposes you can make a charge; so if you spend 8 hours a day at home on business you could charge 50% or more of your broadband costs (assuming you’re asleep for 8 hours a day as well!).

In the case of a mobile phone you might charge 50% or 75% of your mobile bill to the business and the easiest way to do this is via the DL account (if you are a Limited Company).

Never ever by the way get talked into having a ‘business line’ installed at home. If you really do need a separate landline number

for your business, get a VoIP (Voice over Internet Protocol) line. These are much cheaper, and you keep the number wherever you go.

Similarly, don't make the mistake of switching to a business energy supply. It may appear to be cheaper, but the VAT is charged at 20% instead of 5% and it takes several months to switch it back when you sell your house and, like a business landline, could well impede a sale.

What's more you will be locked into a multi-year contract by the energy supplier which is impossible to get out of (I know, I have had several clients who have tried) even if you close your business or cease to trade.

## **Business Premises**

If you don't work from home and need a dedicated business premises there are two options - rent or buy. However, opportunities to buy a property outright are few and far between unless you are actually buying the business it houses as well.

The type of premises you need will depend on your operation and this is discussed in the Personal Business Creation System.

The main thing you need to consider after size, is access. Will customers need to visit you? Is there good access and good parking and also you have to consider access for wheelchairs and the like.

(But here's a tip - if yours is the sort of business where you need to see clients and you don't have wheelchair access, all you have to do to 'get round' the regulations is to offer home visits.)

If people don't need to visit you then it doesn't really matter where you are, but if they do then 'location' is important. Do you need to be on the 'high street' or in an office block or on an industrial estate? It all depends on what your business is and who your target market are.

There are several companies out there offering 'serviced' office space and there are some things you need to watch out for here -

namely, all the ‘extras’. Charges for utilities that are ‘included’ can be much higher than you would pay direct, especially for telecoms, and there are often maintenance and security charges on top of the basic rent.

Certainly, it takes away the necessity to arrange all that yourself but it’s usually much more expensive.

If you do have your own premises or rent where those things aren’t included, you’ll also have to set up your own heating and lighting and telephony supplies.

Business utilities is a very competitive market and not regulated in quite the same way as the domestic market so make sure you shop around for the best deal that’s not going to lock you into a long auto-renewal contract.

## **Security**

Another issue with business premises is that they are usually left empty at night. So what happens if something goes wrong? And that’s not necessarily criminal activity.

First of all, you’ll need an alarm system and possibly CCTV, but what happens when it goes off in the middle of the night? Well, so that you don’t have to get up and rush out there you need to have a ‘keyholder’. A reputable security company that will send someone out in the middle of the night to check it out and take appropriate action. It’s just another of those things that you need to consider when taking on business premises.

## **Working Capital**

All of these operational expenses and costs require a fund of money flowing through the business that is not part of the set up cost or original investment. It’s called ‘working capital’. Basically this means that you must have enough money in your bank account to ‘keep the business going’ in the potential absence of any sales income coming in. This is particularly important in ‘seasonal’ businesses.

And it's not just the costs of running the business, it's your personal income as well. If you do pay yourself a salary, then you need to factor this in. It may be that you don't take any money out as income but charge it to the DL account as money reinvested - but it all depends on your personal circumstances.

Lack of sufficient working capital is one of the key reasons why businesses fail: they, and their owners just run out of money. **Plan** to avoid this happening.

## **Getting 'Help'**

Now you may not be planning to run and operate your business, and deliver its offerings all by yourself, and in fact that's not really a good idea.

Sir John Harvey-Jones said, "*Only ever do what only you can do*", but of course this may not be practical at startup, although you will need to get *some* help, for example an accountant.

There are several different ways that you can take on other people to help you operate your business.

The first is to select specialist suppliers to do the things you personally cannot do or really don't want to do:

- Accountant
- Keyholder
- Printer
- Designer
- IT support

All sorts of different trades and specialities.

Spend some time networking - not to sell' but to find the right suppliers, probably small businesses as well that 'fit' with you and will take some of the workload for a reasonable price.

Avoid the temptation to work with suppliers who normally deal with medium sized or large companies. They don't understand the

problems that face personal owner managed businesses at all and can be very unsympathetic towards any problems that may arise.

Second, you could use ‘sub-contractors’ for specific one-off jobs that you can’t do, don’t want to do, or don’t have time for. These go down as an expense and you have no ‘employment’ responsibilities.

Be careful though of taking on ‘permanent’ sub-contractors, people working for you exclusively over an extended period and often referred to as pseudo-employees and subject to the IR35 tax regime.

Formally employing people is probably not a good idea for a start up personal business. There are just too many rules and regulations to comply with and you need to know a good independent employment law specialist to guide you through this minefield because you **will** need them!

Note that the same rules apply if you are employing your spouse. Not recommended.

## **Training**

Finally, in this Chapter you need to consider training, education and development. You should have a plan for this for yourself and anyone working with you. You need to keep up to date with what is going on in your particular field and other things that are happening around it as well as developing your personal knowledge, so you can enhance your business offering

This doesn’t have to be through attendance at formal ‘courses’ or anything like that. It’s whatever you decide you want to do. Set time aside for it and remember that it’s a chargeable expense.