British Business Bank

Essential guide to starting a business

startuploans.co.uk

Contents

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Researching your idea

Coming up with the idea for your new business is the first step to becoming an entrepreneur.

Lots of people launch a start-up based on a hobby or passion.

For example, if you love baking you could start a cake business or launch a gym if you like to keep fit.

Another way to come up with an idea is to turn a job you already have into your own venture.

For example, an employee working in IT could start their own technology consultancy, while a journalist could launch a freelance writing business.

Deciding why you want to start a business can also help to inform your idea.

Is it to escape a job you're not happy with? Do you want to earn extra money alongside a full-time job? Are you keen to explore a social mission and help other people?

For more inspiration, [here are 24 business ideas to consider.]

Market research

Market research is crucial for working out if there is a need for your business idea and enough potential customers to buy it.

Without it, you may struggle to generate sales for your new product or service.

Carrying out research before you launch your new business helps to clarify the size of your potential market, how you can stand out from the competition, customer likes and dislikes, and how much money potential customers are willing to pay.

There are two types of market research that can help you achieve your goal: Primary and secondary research.

Primary research

Primary research involves gathering new data specific to your business idea that has not been previously collected.

Ways to do it include using focus groups, face-to-face or telephone interviews, surveys, questionnaires, and observing customers as they shop.

Talking to potential customers yourself can be a cost-effective option, or you can pay for a third-party market research service to do it for you.

Secondary research

Secondary research is using pre-existing information which you interpret for your own business.

Sources include news stories, industry publications, reports, whitepapers, and organisations such as the Office for National Statistics, YouGov, and the British Library Business & IP Centre.

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Business strategy and plan

A well-written business plan is a key factor in putting your business on the road to success.

A business plan helps to clarify business objectives and the roadmap to achieving them. It is also an important document when applying for funding.

A business plan should be a living document that you regularly revisit and adapt when necessary to keep your operations on track.

The key sections of a business plan are:

Business and key objectives

A description of your business and its products or services.

Outline the goals you want to achieve in the short term (current year), medium term (next one to two years) and long term (three years and beyond).

The objectives should be measurable and realistic.

Skills and experience

Detail your previous experience that's relevant to your business.

This could be working as an employee in a similar company or running another business of your own.

If you are starting a business in an area that is completely new to you, think about your transferable skills, life experiences you've had, or relevant training you've completed.

Target customers, market, and competition

This section must demonstrate a strong understanding of your target customers and the methods you use to identify them.

You may need to explain how your business will be positioned in the market you are operating in and how your business differentiates from your competitors.

Sales and marketing

Outline how you will attract customers such as your product distribution strategy, the branding you will create, the pricing you will set, and the methods you will use to promote your business.

Operational plans

This section should include details like where you will trade (such as a home office or external premises), the staff you need to employ and the roles they will fulfil, regulations that could impact your business, and how you will overcome potential risks and challenges.

Financials

Outline how you will fund the activities detailed in your plan and the revenue you expect to generate. Include a cash flow forecast that predicts the money you will have coming into and out of your business over the next 12 months.

Further reading

How to write a business plan

Further support

Download our free business plan template

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Company structures explained

One of the first decisions a new business owner needs to make is deciding on which business structure they will trade under.

The structure you select will affect many things, including the amount of tax you need to pay and your level of personal liability for any losses your business makes.

You should carefully consider which business structure is right for you. Speaking to an accountant can be helpful.

Sole trader

Becoming a sole trader is the quickest, easiest, and a popular way to become your own boss.

Of the 5.6 million private sector businesses in the UK at the start of 2023, 3.1 million were sole traders.

When you set up as a sole trader, you have limited paperwork to deal with, you can start trading immediately, and you keep all the profits your business makes after tax.

Although sole traders have fewer administrative responsibilities, you do have unlimited liability which means you are personally responsible if your business becomes insolvent or is sued.

If this happens, your personal assets, such as your home or savings, could be at risk.

Sole traders must register with HM Revenue & Customs (HMRC) for Self Assessment and send an annual tax return.

You need to register by 5 October in your business's second tax year. If you fail to do this, you may face a financial penalty.

After the standard personal tax allowance, sole traders pay income tax and Class 2 and Class 4 National Insurance contributions.

Partnership

A partnership can be set up when two or more people start a business together.

The simplest partnership structure is a general partnership which is made up of sole traders who jointly share liability for any losses the business makes.

A general partnership needs to be registered with HMRC and an annual partnership tax return must be submitted.

The partnership must be registered by 5 October in the business's second tax year, or a penalty could be charged.

Each partner also needs to register for Self Assessment with HMRC, submit their own annual tax return, and pay tax on their share of the business' profits.

Other types of partnerships include limited partnerships and limited liability partnerships.

Further reading on partnerships

[Guide to partnership business structures]

Limited company

Unlike sole traders and general partnerships, a limited company is a legal entity in its own right.

This means that the shareholders are not wholly responsible for debts incurred by the company, with their liability limited to the shares they hold in it.

A limited company is subject to several more legal requirements than a sole trader.

It needs to be registered with Companies House and is subject to Corporation Tax on its profits.

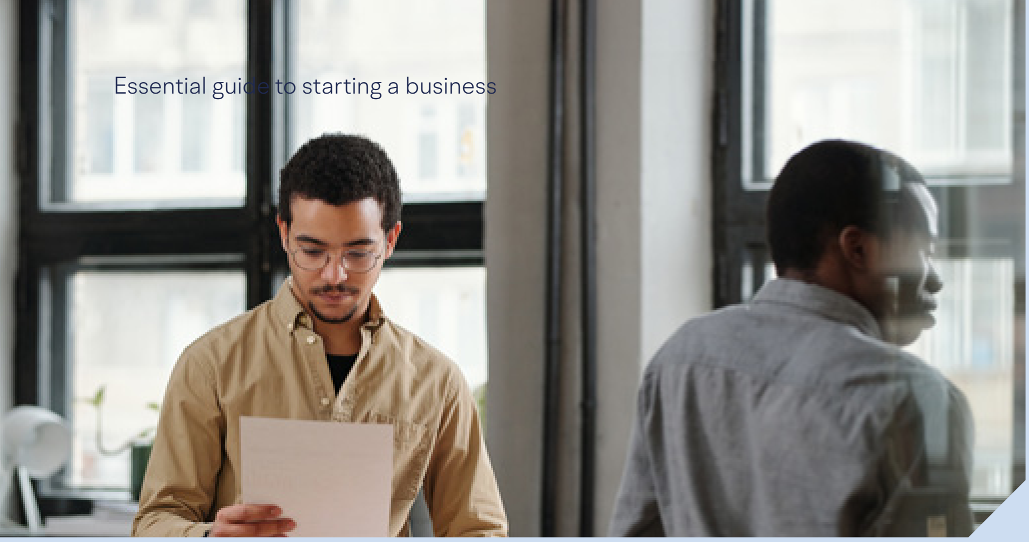
Although it is more complicated to run a limited company, it can be a more tax-efficient structure because directors and company owners can pay themselves via a PAYE salary and then top this up with shareholder dividends after paying Corporation Tax.

Another advantage is that many people may see limited companies as a more professional operation than an unincorporated sole trader.

Larger businesses may often only do business with incorporated limited companies when working with suppliers, and sole traders may find it harder to access funding.

Further reading on limited companies

Read our guide to understanding private limited companies.



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Incorporating your business

To incorporate your business as a limited company, you first need to choose a name.

It can't be the same as the name of another registered company.

You can check company name availability on the Gov.uk website.

Limited companies have various responsibilities including keeping company records and filing company accounts. Directors must be aged 16 or over and not disqualified from being a director.

You can appoint a company secretary to take on some of the responsibilities of a director, but this is not compulsory. A limited company must have at least one shareholder or guarantor which can be a director. There is no maximum number of shareholders.

You must identify people with significant control (PSCs) who meet one or more of the following criteria:

- they own over 25% of the company's shares
- they own more than 25% of the voting rights in the company
- they have the right to appoint or remove the majority of the board of directors.

Once you have all this information, you can register your company with Companies House.

Most people do this online.

You can do it yourself via the Companies House website or using the services of a company formation agent.

Companies House requires at least three pieces of personal information about you and your shareholders or guarantors. Examples include:

- Place of birth
- National Insurance number
- Passport number
- Mother's maiden name.

A registered company needs a 'memorandum of association' which is a legal statement signed by the company's initial shareholders or guarantors.

This will be provided automatically if you register online. If you register by post, there is a template available on the Gov.uk website.

You will also need an 'articles of association' which is the agreed rules about running the company. You can use these 'model articles' or write your own.

A company is usually registered within 24 hours.

5 Business finances explained

It is vital that you understand finances when running your own business.

You need to keep an eye on how much money your business is making so that you can fix any problems.

Keeping track of your finances will also allow you to identify if you need to access external finance to close cash flow gaps or fund business growth.

There are three key statements that are used to monitor and predict a business' financial health:

- a profit and loss account
- a cash flow statement
- a balance sheet.

With the information outlined in these documents, you can spot any issues and act accordingly.

You will also likely need the statements when pitching to investors for equity investment and applying for business loans.

Profit and loss account

If your start-up is bringing in more cash than it's costing to run then you're in a great position.

Understanding your profit and loss account will indicate how successfully your business is operating.

Profit is the amount of money left from all the income your business generates once costs and expenses have been accounted for.

Loss is when the costs and expenses of operating your business are more than the amount of revenue that it generates.

A profit and loss account is a calculation of your business's profit and loss over a period of time, such as monthly, quarterly, or annually.

Limited companies are required to include a profit and loss account when they submit their annual accounts to Companies House.

Read more about profit and loss accounts.

Cash flow statement

A cash flow statement shows the money coming in and the money going out of your business during a specific time.

It is an important document designed to help you understand how well your business is managing its cash and if you have enough money to pay your costs.

You can use the information in the statement to set budgets and tackle any issues with cash flow.

The statement tracks the flow of cash, such as:

Operational cash flow
Day-to-day cash generated from sales and the money you spend running the business.

Investments cash flow
Money you spend and receive from investment activities such as buying and selling equipment.

Financing cash flow
Money provided by or paid back to investors, lenders, shareholders, and business owners.

Balance sheet

A balance sheet outlines the following at a specific point in time:

- **Assets** – things that a business owns. This includes current assets (used for a business's day-to-day operations and to pay its expenses) and non-current assets (assets a business intends to use and own for a period that is longer than one year).
- **Liabilities** – money a business owes to other people, companies, or organisations. Liabilities are either current and due to be paid within a year or long-term, which are debts due to be paid within a period of more than 12 months.
- **Equity** – what the business is worth once liabilities have been subtracted from assets.

This includes cash a business owner and other shareholders initially invested into the business when it launched, as well as additional income and losses that have been generated.

It's called a balance sheet because the assets of a business should be equal to the liabilities and shareholders' equity.

Assets = liabilities + shareholder's equity

Limited companies are required to include a balance sheet when they submit annual accounts to Companies House.

Read this guide for more advice on balance sheets, and download a balance sheet template here.

Credit scores

Your business' credit score is another aspect of business finance you'll need to understand. Also known as a credit rating, a credit score indicates how creditworthy your business is, according to its credit history.

The higher your credit score, the more likely you are to be approved for business finance.

Before applying for funding, first check your credit score with the UK's three credit reference agencies - Experian, TransUnion, and Equifax.

Business credit scores are usually for limited companies.

If you are a sole trader, lenders will likely use your personal credit score when considering a funding application.

When you first start a business you won't have a trading history which can make sourcing business finance difficult.

Fortunately, you may still be able to get a Start Up Loan which involves a personal credit check.

Further reading on credit scores

Read our guide to business loans and credit scores.

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Access to finance

You may need funding to start your business, for which you have several options.

Before accessing finance, be clear about why you need it and how you will spend the money.

Most funding providers require a business plan, cash flow forecast, and other documents so it's a good idea to get these ready before applying for finance or pitching to an investor.

If you decide to take on debt funding, you need to make sure you will be able to pay it back.

Some of your funding options include:

Business loans

Secured and unsecured

A loan is funding from a lender that you pay back over time with interest.

There are two types of loans – secured and unsecured.

An unsecured loan doesn't require an asset as security and, if you have a good credit history, can be quick to access.

Interest rates for unsecured loans tend to be higher though and new business owners often find them hard to access because they require a trading history.

A secured loan requires assets that you own, such as a property or equipment, as security.

Secured loans often give you access to larger amounts of funding than unsecured loans, a longer period to pay it back, and smaller repayments.

Disadvantages include your property that you put up as security against the loan being at risk of repossession if you don't keep up with repayments and secured loans having a slow application process due to property valuations and other legal requirements.

Learn more about secured and unsecured loans.

Start up loans

Unlike many loan providers which require business owners to demonstrate a good trading history, Start Up Loans lends to businesses that are not yet trading, or have only been trading for up to 36 months.

The scheme provides government-backed unsecured personal loans of between £500 and £25,000 with a fixed interest rate of 6% a year.

The repayment term is from one to five years, and successful loan applicants also receive free mentoring.

Grants

A grant is funding that you don't have to pay back.

They are often provided for specific business activities such as starting a business, purchasing equipment, and training.

Some grants are match-funded which means you need to provide a proportion of the funding yourself.

Grants can be complex to apply for, and each may have its own requirements and criteria.

The gov.uk website has a list of grant schemes. There are similar lists on the Business Wales, Scottish Government and Invest Northern Ireland websites.

Crowdfunding

Crowdfunding is when a business uses an online platform to attract finance from the public and investors.

Equity

On equity crowdfunding platforms, such as Seedrs and Crowdcube, small business owners sell shares in their company in exchange for funding.

Reward

On rewards-based crowdfunding platforms businesses provide rewards, such as a product, instead of equity. Platforms include Kickstarter and Crowdfunder.

Crowdfunding can be a great way to raise awareness of your business and attract funding, but it can be time-consuming and you may not end up raising the full amount of money that you require.

Further reading on crowdfunding

Read our guide to crowdfunding.

Angel investor

An angel investor is a type of investor who provides funding to a business in return for a stake in the ownership of that business and is a form of equity funding.

Other types of equity funding include venture capital and private equity, but angels are most likely to invest in very early-stage businesses.

Angel investors are high-net-worth individuals.

They usually have business experience which means many are happy to provide advice and make use of their personal networks as well as provide financial backing.

Angel investors look for start-ups with a strong potential for growth and high return on investment.

Ways to find angel investors include attending business events, searching on professional networks such as LinkedIn, and contacting the UK Business Angels Association.

To attract angel investors, you can make use of the Seed Enterprise Investment Scheme (SEIS) which provides tax relief for certain investors in your business.

Further support on angel investors

Learn more about angel investors.

Tax explained

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There are various taxes you need to be aware of as a business owner and you should consider seeking independent, professional tax advice to ensure you pay the right amount.

Income Tax

Income tax is personal tax paid on income, including the profits made by self-employed people.

Most people in the UK have a personal tax allowance of £12,570.

Beyond that, the percentage of tax you pay is dependent on how much you earn.

The income tax bands for England, Wales, Northern Ireland, and Scotland can be found on the Gov.uk website.

Business owners may be able to reduce the income tax they pay in various ways, including making pension contributions and being paid in dividends as a limited company shareholder.

National Insurance

National Insurance Contributions (NICs) are payments towards an individual's entitlement to a basic state pension and other benefits.

Self-employed business owners with annual profits of £12,570 or more pay Class 4 National Insurance contributions.

If you have staff, you need to pay employer's National Insurance.

Some businesses can reduce these payments through their employment allowance.

Corporation tax

Corporation Tax is a tax paid by limited companies on profits that they make.

A Corporation Tax return needs to be filed with HM Revenue & Customs (HMRC) within 12 months of the accounting period it covers, with payment due within nine months of the end of the accounting period covered in the return.

The main rate of Corporation Tax, for companies with over £250,000 profit, is 25%.

Companies with a profit of £50,000 or less pay the 19% 'small profits rate'.

If your profit is between £50,000 and £250,000, you might qualify for 'Marginal Relief'.

Value added tax

VAT is a tax applied to the sale of most goods and services.

The standard rate is currently 20%.

The current VAT threshold is £90,000 which means you must register for VAT if your VAT taxable turnover in the last 12 months was over £90,000 or you expect it to exceed £90,000 within the next 30 days.

You can choose to register if your turnover is under £90,000.

Further reading

Read our guide to VAT

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Setting up a supply chain

A supply chain is the system of supplying a product to a customer and it's a process that entrepreneurs running a product business must get right.

If you end up working with unreliable suppliers or you pay too much for your supplies, you could end up losing customers or reducing your profits.

Before selecting a supplier, be clear about what you want.

Think about exactly what you want the supplier to provide, the timescales and frequency you expect supplies to be delivered, and how much you are willing to spend.

There are thousands of suppliers available, but it's easy to pick the wrong one for your business.

To find the right supplier, use trusted sources such as:

- asking fellow business owners for recommendations
- reading trade publications
- attending trade exhibitions and setting up meetings
- checking approved supplier lists from business groups and trade associations
- searching the government's UK supplier database.

Draw up a shortlist of suppliers and approach them with your detailed brief.

Compare their responses to decide which to speak to about negotiating a contract.

You might also want to carry out credit checks and ask for testimonials from their existing clients.

When finalising a contract, be clear about the factors that are important to you.

You can read our guide on negotiation tactics to help you with this process.

Once a deal is agreed, draw up a service level agreement which covers areas such as the responsibilities of both parties, the service the supplier must deliver, metrics for how service levels will be measured, and payment terms.

Be sure to maintain a good relationship with your supplier by communicating regularly.

Keep suppliers updated on changes, such as your plans to launch new products. Be efficient with your orders, stock management, and payments.

Failing to pay a supplier on time can lead to disputes and delays, which could impact getting products to your customers.

Further reading

Read our guide on choosing the right supplier

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Marketing your business

Once you've launched your business, you need to get your products or services out there.

To help you generate sales, it's a good idea to create a marketing plan.

This document should outline how you'll communicate the benefits of your products or services to your target customers, the pricing strategy you'll adopt, and the marketing channels you'll use.

You should also set goals for what you want your marketing efforts to achieve.

The plan should identify your target customers using demographic data such as gender, age, location, and buying habits.

You also need to understand which brands they currently buy from, how loyal they are to those brands, and the media they consume.

Decide on your marketing goals, such as sales conversion rates from a particular marketing channel.

For example, if you want to get 40 customers a month via your website, calculate how many visitors you'll need to attract to your website to do that.

Marketing channels to use include:

Websites and online marketplaces

Social media

Networking

Website and online marketplaces

A website is essential for most businesses.

It's a way for potential customers to find details about your company and buy your products or services.

You can pay a web designer to build a website, but that can be expensive.

Alternatively, you could use one of several low-cost template website-building services such as WordPress or Wix to build your website yourself.

Choose a website domain name that matches your business name as closely as possible.

To make it easy to find online, work on your website's search engine optimisation (SEO) by building in relevant keywords that customers are likely to type into search engines when looking for a business like yours.

If you sell a product, as well as promoting it on your website, you could use online marketplaces such as Amazon, Etsy, and Not On The High Street, which provide the potential to reach a global audience.

Further reading on website and online marketplaces

Read our article on the importance of marketing to a start-up.

Social media

By using social media, you can reach thousands of potential customers.

There are several platforms to choose from, including Facebook, Instagram, X (formerly Twitter), TikTok, and LinkedIn.

You don't need to join them all.

Work out which are most relevant to your target audience.

For example, Instagram is good for showcasing products, while LinkedIn is useful for business-to-business companies.

Tailor your social media content to the channel, and don't just promote sales messages.

Encourage engagement with content such as polls, surveys, and graphics.

You can also respond to enquiries and ask your followers questions to gather valuable feedback.

To get even more targeted, you can pay for social media advertising that reaches users based on specific demographics such as gender, location, and interests.

Further reading on social media

Download our free social media toolkit.

Email marketing

Email marketing is one of the most effective ways to target customers and generate revenue.

Start gathering email addresses as soon as you can.

Allow people to register via your website, promote your email list on social media, feature it on business cards, and tell people at networking events.

You could offer an incentive for signing up, such as a product discount.

You may need to ask permission to send marketing information to customers via email – and customers will need to choose to opt in to receive email or marketing from other channels, such as direct mail.

There are several email marketing tools available, many of which are free to use until you have a certain number of subscribers. Examples include Mailchimp, Mailerlite, and Sender.

Include helpful, entertaining, or informative content as well as sales messages in your emails. Make sure you have strong calls to action.

Keep subject lines short and snappy and test different topics to understand what makes recipients open emails.

You can also analyse at what time and on what days they are most likely to open them.

Further reading on marketing

Download our free marketing toolkit.

Networking

Networking is an important activity for new small business owners.

It's a way to connect with and learn from other business owners, meet useful experts and connect with potential customers or clients.

In addition, launching your own small business can be lonely, so attending events can also help you deal with feelings of isolation, tackle imposter syndrome, and benefit your mental health.

Before going to an event, think about what you want to achieve.

If possible, try to get hold of the event attendee list and work out the key people you want to meet.

Practise your introduction and how you will describe your business.

You should be able to explain it clearly and concisely in a sentence or two.

Prepare some business cards with your contact information or be ready to add new contacts on LinkedIn.

When speaking to people, make sure you listen as well as talk.

Don't make the conversation all about you and your business.

Ask questions and show interest in what they have to say. Demonstrate how you could potentially help them.

After the networking event, follow up promptly with your new contacts and arrange meetings if necessary.

To find networking events to attend, your options include:

- joining business groups, networking organisations, and trade associations
- searching event listings websites such as Eventbrite, Find Networking Events, and Meetup
- asking fellow entrepreneurs, colleagues, or friends
- searching on social media and asking your social media contacts
- contacting the business support department at your local council
- working from co-working spaces where other business owners are present.

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Protecting your intellectual property

The intellectual property (IP) of your business is an intangible asset created by intellect and can include things like branding, logos, slogans, inventions, photographs, illustrations, and taglines.

A competitor might copy your IP if you don't protect it, which could damage your business.

There are various ways to protect your IP.

Copyright

This is an automatic legal protection for original creative work such as writing, art, illustration, literary work, photography, music, film, and sound recordings.

Copyright prevents others from using, copying, or distributing work without the creator's permission.

It lasts until 70 years after the death of the original creator.

As copyright is automatic, you don't need to indicate it, but you can do so by using the © symbol.

Trademarks

A trademark protects things used to identify products or services, such as a company name, logo, sounds, colour, and tagline.

You need to apply to register a trademark with the Intellectual Property Office. You can do it yourself or get the help of a trademark attorney.

A trademark lasts ten years, and you can renew it when it expires.

Once registered, you can use the ® symbol.

Patents

A patent protects inventions, such as a product or process, that are new, inventive, and either something that can be made and used, a technical process, or a method of doing something.

Once protected, you can take legal action against anyone who makes, uses, sells, or imports it without your permission.

Getting a patent is the most complex and expensive form of IP protection.

Applications, which can take several years, cost at least £310. You will usually also need to pay a patent attorney for help, which can cost several thousand pounds.

A patent initially lasts 5 years. After 5 years, you must renew the patent every year, up to a maximum of 20 years.

Design rights

The arrangement and shape of a three-dimensional design is automatically protected for ten years after it was first sold or 15 years after it was created, whichever is earliest.

For greater protection, you can register a design if it meets the eligibility criteria.

A registered design is protected for up to 25 years but must be renewed every five years.

Jargon buster

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Below you'll find explanations of some of the financial and business terms used in this guide:

- **Balance sheet** – A statement that outlines a business's assets, liabilities, and shareholder's equity at a specific point in time.
- **Cash flow statement** – A statement that shows the money coming in and going out of a business.
- **Corporation Tax** – A tax paid on the profits made by limited companies.
- **Imposter syndrome** – The feeling of self-doubt about your skills, talents, or accomplishments.
- **Intellectual property (IP)** – intangible assets created by intellect, such as branding, logos, slogans, inventions, photographs, illustrations, and taglines.
- **Profit and loss account** – A statement showing a company's income and expenses at a specific point in time and indicates whether it is making a profit or loss.
- **Search engine optimisation (SEO)** – The tactics used to improve where a website appears in search results.
- **Seed Enterprise Investment Scheme (SEIS)** – A government scheme that provides tax relief to investors backing small businesses.
- **Value Added Tax (VAT)** – A tax applied to the sale of most goods and services.

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