

2021

A step by step guide to starting
and financing a new business



Starting a Business

A thick, dark blue brushstroke that tapers at both ends, positioned horizontally below the title text.

Welcome

This ICAS business start-up guide aims to help you:

- consider what advice or mentoring you may need
- find a mentor
- prepare a business plan
- identify appropriate funding
- with tips on starting your own business
- find sources of further guidance.

'Cash is king - have you enough to deal with contingencies and have you got a plan B as to where you will get it?'

Chris Fletcher CA
Non-Executive Director

Introduction

This is a short and simple guide for those thinking about starting a business. It is not a comprehensive guide for all companies and circumstances.

It provides:

- a high level overview of what you need to know, based on the experience of those who have done it themselves
- top tips and practical advice from ICAS Chartered Accountants who are successful entrepreneurs, including what helped them get their idea off the ground
- advice from investors and business angels who help to fund and advise new and growing businesses
- links to further information on the internet.

'Don't give up the day job – try working part time to earn income while you are building your business'

Becky Woodhouse CA
Founder and Managing
Director, Pure Spa

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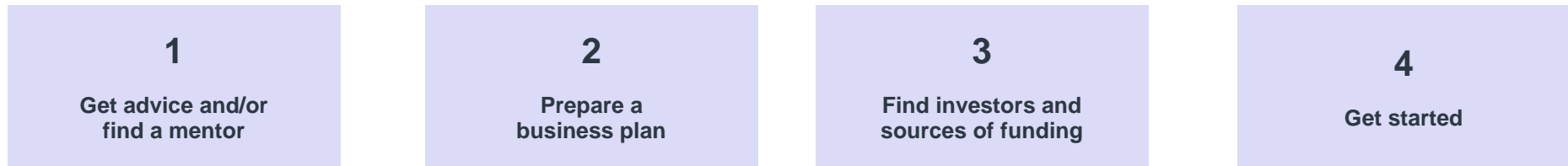
[Instagram](#)

Email: connect@icas.com

Do you have a bright idea and want to start a business?

What you need to do?

There are four key steps when starting a business. The first thing you need as a budding entrepreneur is advice from someone who is experienced in starting a business, someone you can bounce ideas off, someone who is professionally qualified to advise you and also potentially someone who can act as a mentor during the crucial early stages of your business.



- Step one is therefore to get advice and/or find a mentor.
- Step two is preparing a business plan to assess your business idea to work out if it could make a viable business.
- Step three is finding investors and sources of funding.
- Step four is getting started.

Step 1 – Get advice and/or find a mentor

Various organisations provide mentoring services. Sometimes this can be free, as one thing you are unlikely to have a lot of when starting out is spare cash. A few examples of where to get advice and/or find a mentor include:

Business mentoring UK		
Find a CA	What a CA can do for you and how to find one.	A local firm of Chartered Accountants can help with financial advice, business planning and starting up.
Mentorsme Entrepreneurial Spark Scottish Chambers Find a CA business mentor	Support & mentoring for entrepreneurs.	
Business Gateway (Scotland) Business Support Helpline (England) Northern Ireland Business Business Wales	Government funded local advice and support for businesses across UK.	Various services are offered including guidance and mentoring.
Prince's Trust Youth Business Scotland The Prince's Trust Enterprise Programme (England)	Finance and advice for young people looking to set up their own business.	The Prince's Trust supports young people aged 18-30 in England and Scotland to start up and continue their business. They also provide mentors.
Find guidance & advice	See useful online resources pages 27-29.	

Step 2 – Preparing a business plan

Overview – what is your idea?

What is your idea? Is it convincing and does it have a unique selling point? When your professional adviser, mentor or potential funder is reviewing your business plan, they will want to get a clear understanding of your motivations for doing so, why you want to set-up your own business, what your ambition is and what you want to achieve. Do you know your first customers?

The business plan you prepare is to demonstrate that your business idea is viable, has the potential to generate a profit, and how you can put your ideas into practice. On the next page the steps to help work through your thought process for a business plan have been set out.

Work out if it has the potential to make a viable business, you will need to consider:

- how to assess your idea (see page 6)
- how are you going to do it (see page 9)
- market research (see page 9)
- how will you deliver (see page 9)
- calculate what resources you need to deliver (see page 10)

Market research – your business plan will need more than just costs. It will need to demonstrate your knowledge of the market and how your business idea fits in. For example who are your competitors, what is their price, what is their unique selling point (USP), what would your USP be, what is the size of the market and likely demand? Have you market tested to prove demand exists? How can you do better than the competition?

If you have done your market research and you can take your estimated sales income and cover your costs yet still maintain a market competitive price, and you know your first customer, you may well have a viable business idea.

Step 2 – Assessing your idea

What is your idea?

1. Why do you want to set-up your own business?
2. What is your ambition?
3. What is your idea and what do you want to do?
4. Who are your customers?

Does it make a viable business?

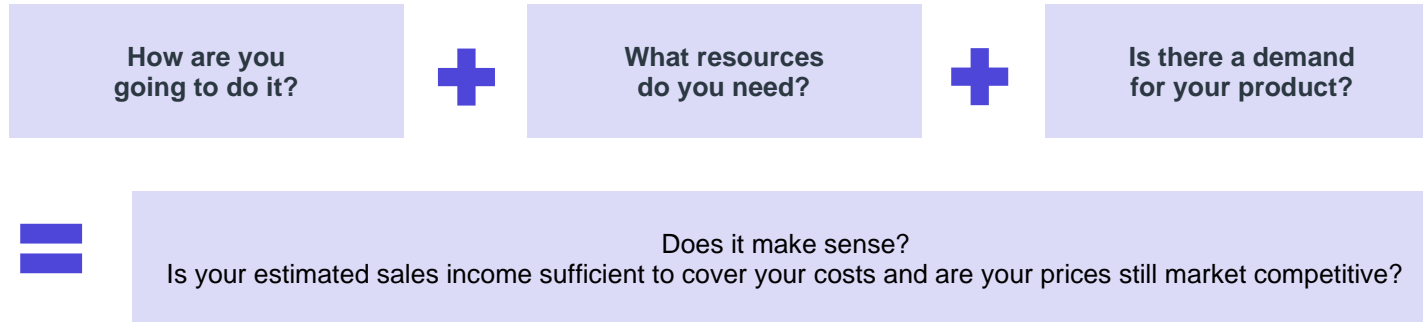
- Tips on how to assess your idea – go to page 8

Does it make a viable business?

- Your business plan is key to deciding whether the business may be viable or not. If so, start using it to get your idea off the ground and get funding – go to page 13

Does it make a viable business?

Assessing your idea



How are you going to do it?

Information you are likely to need:

Market research

- is there a gap in the market? Have you market tested to prove demand exists?
- who are your initial customers?
- how will you sell to them?
- how do you find more customers? What is the size of the market and likely demand?
- who are the competitors and what are their prices? What is their unique selling point?
- what is your unique selling point? How can you do better than the competition?

How will you deliver?

- what resources will you need – stock, cash, people, equipment and premises?
- what stock do you need and who are your suppliers? Do you have a back-up?
- will you need premises and if so, where is the best location?
- do you need staff and when can you recruit?
- work out your costs and how much cash you need.
- what are your risks – can you do something to reduce them?

What resources do you need?

Information you are likely to need:

What are your costs?

- stock
- raw materials and production
- marketing your product
- packaging and distribution
- do you need any staff and when can you recruit?
- premises and related costs such as rates, heating and lighting
- taxes and national insurance
- accountancy
- health and safety
- legal and professional fees
- what financing do you need, what will it cost and for how long?
- watch out for hidden costs

What is your expected income?

- when will your income first arise?
- when will you be paid?
- what sales income do you require to cover your costs?
- is your price still market competitive?
- is it sustainable?
- how can you meet increasing demand?

Is your business or its investors eligible for any tax reliefs?

Thinking about your potential tax reliefs as part of your business plan is worthwhile. Not only does this help your planning and cash flow but it will show your audience that you have done your homework. Sometimes to be eligible, a particular business structure may be required. This is worth considering at the business planning stage, rather than much later so that it can be incorporated as your business grows and you can make the most of the tax reliefs available. The availability of tax reliefs is not always well known. Some examples include:

1. Seed Enterprise Investment Scheme is designed to help smaller higher-risk companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies. If you have an eligible business, it will increase your chances of obtaining funding from business angels.
2. Patent relief – if you are creating something that may need a patent or are working on a business idea that is likely to involve a future patent, there are tax reliefs you could be eligible for.
3. Creative industry tax reliefs – allow qualifying companies to claim a larger deduction, or in some circumstances claim a payable tax credit when calculating their taxable profits.
4. Research & Development tax relief or tax credits – particularly useful for an R&D company that is cash hungry. Find out more on [hmrc.gov.uk](https://www.hmrc.gov.uk)

Tax relief is a specialist area so it would be worthwhile getting advice and speaking to a CA. Find a CA firm near you – [icas.com/find-a-ca](https://www.icas.com/find-a-ca)

Is your business eligible for grants?

See more on page 15.

Cash before profit – how much cash do you need?

Plan your cash flow ie your cash income and payments to work out how much cash you need each month. In establishing your business you will find short term cash is more important than profit.

How soon can you generate cash?

Always add in a contingency for things going wrong and delays. Plot various scenarios to test your assumptions, help your contingency planning and work out if you need more or less cash that month (known as 'sensitivity analysis'). For example:

- what happens if your customers delay payment by one month?
- can you incentivise customers to pay early?
- what happens if sales volume drops by 20%?
- what happens if your supplier shortens the payment period and requires you to pay one month earlier?
- how flexible are your outgoings, for example can you negotiate credit terms with your suppliers?

What business structure?

Information you are likely to need:

There are various ways your business can be structured and your choice will define your legal responsibilities and tax payable. The most common are:

- Sole Trader
- Limited company
- Partnership
- Limited liability partnership (LLP)

Once you have started in business and chosen your preferred business structure, there is nothing to stop you from changing to another type when circumstances change.

There are various websites which provide information on these structures, for example, Companies House – [choosing the right business structure](#)

Speaking to a CA could help you to identify the option which is most appropriate for your business.

Find a CA near you – [icas.com/find-a-ca](https://www.icas.com/find-a-ca)

Using the business plan

Testing your business plan is vital. Its purpose is to help set you up as a profitable business. Use it to:

- refine your ideas and make sure you have thought of all the main issues;
- ensure your business idea is viable;
- convince others;
- attract funding.

Find someone to challenge your ideas, perhaps a mentor. Be convincing and practice your presentation well to show your capability. Develop an 'elevator pitch' – a two minute opportunity to sell your idea.

A well written business plan and capable management cannot be underestimated. Both help to generate confidence and will maximise the opportunity for funders to provide finance. A mentor can help improve the quality of a business plan. Good financial systems and controls are key management tools (along with sales and perhaps legal advice), which can also help to generate confidence.

Projections are often the weakest element of an application and robust 'sensitivity analysis', where you demonstrate the impact of changes in your assumptions, is essential.

Demonstrate that you understand:

- where the business is going over the next 12 months;
- business fluctuations;
- adaptability;
- what risks exist and what you can do about them;
- the impact of changes in your assumptions;
- how funding will be applied to achieve growth.

Who are you going to approach and how?

- Banks?
- Suppliers?
- Mentor?
- Funders?

- Customers?
- Business partner?

A business plan needs to meet different stakeholder needs. A plan based solely on funding needs may not convince all.

Does your business plan show you have a viable business idea?

Pitching your idea successfully

- Practice, practice, practice!
- How convincing are you?
- Effective presentation
- What is your management capability?
- Challenge and refine

Step 3 – Finding investors – sources of funding

Overview

Finding funding will be one topic that is foremost in your mind when starting out and can be carried out in parallel with getting started. Many businesses continue fund raising for the first few years while founders also have to run their business. You need the management capacity to do both concurrently. The options are debt, equity or grants.

A good starting point to identify funding sources relevant to your business type and geographical area is the UK government business portal (www.gov.uk/business-support-helpline) or the Scottish government business portal (findbusinesssupport.gov.scot).

Grant funding may also be available try gov.uk/business-finance-support-finder. Government bodies such as Business Gateway have local offices and can signpost you in the direction of potential local funding sources (see page 5 for the UK bodies).

If you have high growth potential you may be eligible for additional support from Business Gateway (bgateway.com) or funding from Scottish Enterprise (scottish-enterprise.com).

Try also british-business-bank.co.uk/finance-hub/growth and your local authority.

The information on page 17 shows an overview of the various types of funding at different stages of business growth. Start-ups are perceived as high risk and experience difficulty getting external funding as they may lack experience, income and a track record. At this stage you will most likely have to raise the funds yourself or approach friends and family. Even for larger businesses, friends and family can be vital.

Once you have moved into the start up and revenue stage and you are ready to seek further external equity funding, you might find it useful to speak to one or more business angels who come with the benefit of experience. They will only invest in an enterprise they believe will grow and rise in value. Equity is usually the most appropriate type of funding for start-up and early stage business as funding is locked into the business, unlike a loan which may be called in if trading conditions deteriorate.

Once you have moved into profit, the risk profile improves. Your funding needs may also be increasing which means that you may outgrow business angel funding (which usually peaks at approximately £1m but can exceed this) and need other sources of growth capital, for example, from a venture capitalist. An adviser can be helpful if you need to approach a venture capitalist. Each has its own particular deal size and areas of specialism. There is also the Business Growth Fund – businessgrowthfund.co.uk (typical turnover of £5m+).

Methods of raising finance are evolving, so be aware of alternative finance options. If your idea is technology and innovation, the government's Technology Strategy Board (innovateuk.org) – supports small and medium sized businesses with the potential for high growth. An overview of the different types is shown on the next page.

We do not advocate a particular type, but do advise that with any type of funding an investor needs to undertake sufficient due diligence to make sure they understand the risks and are comfortable that the type of funding fits with the business needs. A discussion with a CA can help.

If you are looking to partner with a university or research institute try interface-online.org.uk/how-we-can-help/funding.

Find investors – Types of funding suitable for the development stages of your business

Stage 1 – start-up

Friends and Family (equity/loans)

Stage 2 – development and post revenue

External equity

Stage 3 – development and post profit

Demonstrating viability for successful loan applications

Types of funding – Business Angels

About business angels

- An investor who provides financial backing for small start-ups or entrepreneurs for a share in the business.
- A key benefit is that they often have a successful business background and can provide valuable guidance and experience, sometimes through mentoring.
- Angels can work individually or as part of a syndicate.
- Investments can vary from around £10,000 up to £1m and even £2m for the largest syndicates.
- Angels are often motivated by tax incentives, particularly the Enterprise Investment Scheme (EIS).

Where to go – some examples:

Linc Scotland lists member angel groups – lincscot.co.uk/resources/member-directory
[Angel investors \(UK\)](http://angelinvestmentnetwork.co.uk) – angelinvestmentnetwork.co.uk

Young Company Finance – ycfscotland.co.uk

TIP – check if your business is eligible for EIS relief on the [HMRC website \(hmrc.gov.uk/eis\)](http://hmrc.gov.uk/eis) for detailed information on all company conditions

Types of funding – Bank lending

Banks

Banks have a lower risk appetite than the business angels and venture capitalists.

Banks are more likely to lend when their risk is covered by assets, for example, you can provide security such as property, or you have demonstrated experience to help reduce the risk rating, but a lot depends on your business plan and how convincing you are. Some start-ups do get bank support, but many do not. A lender likes to see that a borrower has 'skin in the game' to share the risk and demonstrate commitment. What will it cost, how long do you need funds, and how easy is it to draw down? The riskier the deal for the lender, the higher the cost.

If you need equipment or vehicles, leasing and asset finance could be an option as it can leave you with money up front to develop a business and generate sales to pay your costs.

The UK Government's [British Business Bank](#) provides useful explanations of the types of debt typically available on the market (from banks and crowdfunding/P2P lenders):

[Business loans](#)

[Overdrafts](#)

[Asset-based lending](#)

[Leasing and hire purchase](#)

[Invoice finance](#)

[Export finance](#)

Types of funding – Non-bank lending

Community Development Finance Initiative

Community development finance institutions (CDFIs) are non-profit institutions that lend money to those who struggle to get finance from high street banks. They lend to individuals, businesses, social enterprises and charities who can use the money to help and develop their local community. There are about 60 across the UK – findingfinance.org.uk

For general information on CDFIs visit responsiblefinance.org.uk

[The Scottish Growth Scheme](#) – for Scottish companies is designed to assist with early stage debt and equity [Start Up Loans](#) - small businesses can borrow up to £25,000 from the UK government's [British Business Bank](#).

New funding alternatives

Crowdfunding – what is it?

This is a practice of raising funds through a large number of small value amounts from a wide range of funders. It is usually internet based.

Main types of crowdfunding

Reward

Pledge secures a product or service

Donation

Donation with existential reward

Loan/P2P

Credit contract, credit is being repaid plus interest in some cases

Equity

Shares in the firm

Find out more

startups.co.uk/crowdfunding/

Be informed, seek advice, be aware of rights and read more on the FCA website: www.fca.org.uk/consumers/crowdfunding

Step 4 – Getting started – what you need to know and where to go for help

Tips for getting started

Here are some tips for starting out from those who have started up a successful business. The stakes can be high, many have invested savings or remortgaged their home to start out so firstly reduce your risks. If you can, keep working in your existing job to maintain an income. Setting up a separate business bank account will also make your life a lot easier in terms of clearly identifying business income and expenditure and for completing tax returns.

Start small – overtrading is the biggest cause of running out of cash and business failure. A common example is having too high a level of stock; you might still be selling but there is too much cash tied up in stock and the income is not coming in fast enough to cover your costs. If this affects your ability to pay loan charges, a lender or creditor may start to get concerned and call in the debt or cease supplies.

Get the right staff and partners – do you need staff? This may influence where you locate your business. How well do you know your business partner?

Find out from your local authority what licences or permissions you may need to operate your business and build the timings and fees into your cash forecasts. You may not be able to start trading and generating income without the appropriate licences in place. When are you likely to get the licence and how long would it be to reapply if you do not meet all the criteria?

You may have written a fantastic business plan but there will still be many unforeseen events and changes so make sure you build in a contingency for this. Keep your business plan dynamic to adapt to change.

At the start you need to keep costs to a minimum so maximise the internet and social media to identify customers, sell online and spread the word about your new business.

Can you partner with another business to share costs? Premises, equipment and staff costs can be significant – is there a way you can kick off sales from home and leave these higher 'fixed' costs to later when you have a healthier bank balance?

Finally, and by no means least, know who your first customer is and test the market.

Reduce the risks

- Don't give up the day job
- Start small –
 - Avoid overtrading – lack of cash is the prime cause of business failure
- The right staff are key to your success
- Check with your local authority what licences you will need and timings
 - Build these timings into your cash forecast plans
- Use a separate bank account
- Dynamic plan to respond to change and crisis
 - Be nimble and responsive to change

Keep costs to a minimum

- Maximise the internet and social media
- Join forces to share costs
- Minimise fixed costs – add premises and staff later

Test the market

- Know your first customer
- Sell online

Find a Mentor

- Quality of management is key – how convincing are you?

Finding Funding

Finding funding can proceed in parallel with getting started. Many businesses keep fund raising for the first few years while running the business at the same time. You need the management capacity to do both concurrently.

- Starting out –friends and family are the most likely first stop
- What security can you provide to support your loan applications?
- Leasing and asset finance – If you need equipment or vehicles, this option can leave you with money up front to develop a business and generate sales to pay your costs.

Cash is king – a well known phrase but vital

Running out of cash to pay your bills is the number one reason businesses fail.

Challenge suppliers to provide prompt payment discounts, encourage customers to pay early. Can you reduce your stock level? This is known as 'managing your working capital'.

Some businesses use credit cards to help manage cash flows at the month or year end. Be aware that this can be expensive and likely to be included in security but it can buy you that extra bit of time to keep afloat.

Don't forget the hidden costs.

A contingency will need to be built in to your cash flow forecast to cover uncertainties. Change is guaranteed. A supplier can change payment terms so you end up paying earlier, regulations can change, health and safety can be a significant cost, staff costs will need to include employers' national insurance and pension.

- Prompt customer payments
- Credit cards help cash flow but can be expensive
- Mixed pipeline
 - Big company customers tend to take longer to sell to, so use your website to sell to individuals in the meantime
- Hidden costs – include a contingency
 - Don't expect to identify all costs in advance – a contingency is vital. Examples of hidden costs:
 - suppliers change payment terms
 - staff costs – add tax and national insurance. Do you offer benefits? What about fuel tax?
 - bad weather provision if you have a weather dependent business?
 - delay in sales eg on one month delay in sales.

Useful online resources

General guidance

Startups – an online resource for starting a business. startups.co.uk

Startup Britain – a national campaign by entrepreneurs for entrepreneurs to celebrate, inspire and accelerate enterprise in the UK. startupbritain.org

Interface – provides a central point to match you to the right academic expertise available in Scotland's Higher Education and Research Institutions. interface-online.org.uk

British Business Bank

Start Up Loans – www.startuploans.co.uk

As well as information on funding, there is a lot of support on here including free courses that are offered in partnership with the Open University. There's also an 'Essential Guide to Starting a Business' that can be downloaded as well as case studies, success stories and an area to sign up to the mailing list for a monthly newsletter with tips and advice.

Setting up a small business – [The complete guide](#)

The Finance Hub – british-business-bank.co.uk/finance-hub/

The Finance Hub helps scale-up, high-growth and potential high growth businesses understand more about their finance options. Its scope has been expanded in the wake of the coronavirus pandemic and Brexit and supports businesses looking to survive and recover as well as grow.

Finance options available – british-business-bank.co.uk/finance-hub/finance-support/

This is an area on the Finance Hub where users can navigate to Start Up Loans, as well as 'Other forms of finance'. The latter includes explanations of the other forms of finance available (debt and equity) including angel investment and the options such as business loans, overdrafts etc.

British Business Bank regional funds which have their own websites:

[North of England Investment Fund](#) [The Midlands Investment Fund](#)
[Cornwall & Isles of Scilly Investment Fund](#)

Useful online resources

Starting a business – [gov.scot](https://www.gov.scot)

Find business support – [Scotland](https://www.scotland.gov.uk)

UK Government – [gov.uk/business](https://www.gov.uk/business)

UK government support for business and finance

Scottish Business Portal – business.scotland.gov.uk

Chartered Accountant CA

An ICAS Chartered Accountant can help you prepare compliant accounting records as well as provide business advice. [icas.com/find-a-ca](https://www.icas.com/find-a-ca)

Local advice & support for business

Business Gateway

[Bgateway.com](https://www.bgateway.com) (Scotland)

Business Support Helpline (England)

[gov.uk/business](https://www.gov.uk/business)

Northern Ireland Business

[nibusinessinfo.co.uk](https://www.nibusinessinfo.co.uk)

Business Wales

[businesswales.gov.wales/starting-up](https://www.businesswales.gov.wales/starting-up)

HMRC

What you need to know for starting a business and employing staff – [gov.uk/topic/business-tax/self-employed](https://www.gov.uk/topic/business-tax/self-employed)

Federation of Small Businesses

Promotes and protects the interests of the self-employed and owners of small firms – [fsb.org.uk](https://www.fsb.org.uk)

Entrepreneurial Spark

This is run by a few Scottish entrepreneurs to provide financial support and mentoring to new start-up businesses. They also provide office space, giving start-ups a place to get established – [entrepreneurial-spark.com](https://www.entrepreneurial-spark.com)

Employing staff for the first time – How do you recruit?

[gov.uk/employing-staff](https://www.gov.uk/employing-staff)

Companies House

What you need to start a new company

[gov.uk/limited-company-formation/register-your-company](https://www.gov.uk/limited-company-formation/register-your-company)

Health & Safety – Tools, guidance and advice

[hse.gov.uk/business/getting-started.html](https://www.hse.gov.uk/business/getting-started.html)

ICAS

Directors responsibilities

[icas.com/professional-resources/business-and-governance/support-and-guidance/what-directors-need-to-know-to-run-boards-effectively](https://www.icas.com/professional-resources/business-and-governance/support-and-guidance/what-directors-need-to-know-to-run-boards-effectively)

Other ICAS guidance

[icas.com/professional-resources/business-and-governance](https://www.icas.com/professional-resources/business-and-governance)

For equity funding and experienced business advice:

Angel investors (UK) – angelinvestmentnetwork.co.uk

Business Angels Scotland – lincscot.co.uk/entrepreneurs

Young Company Finance – ycfscotland.co.uk

Find expert advice:

Enterprise Nation enterprisenation.com

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[icas.com/professional-resources/business-and-governance/support-and-guidance](https://www.icas.com/professional-resources/business-and-governance/support-and-guidance)

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Who we are

ICAS is a professional body for over 22,000 members across the UK and globally, who have achieved the internationally recognised and respected CA (Chartered Accountant) qualification. We are an educator, examiner, regulator and thought leader.

Find a CA firm near you – [icas.com/find-a-ca](https://www.icas.com/find-a-ca)



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