

Take the time to make a plan

Peter Savage set up his first business 19 years ago. His step-by-step guide, with tips from experience, will help you plan for success.

by Peter Savage. Azure Finance

Step one:

Get advice based on experience

Starting out in business on your own can be a life-changing experience and one which may happen only once – hopefully, if you are successful – in your working life. Lots of people (bank managers, accountants, friends, family) are on hand to give you advice on what you should or should not do but rarely have any of them set up a business on their own. Textbooks can help, of course, but no one can really explain the experience unless they have been there and done it themselves.

Therefore my first piece of advice is to seek out a couple of people you trust – such as a colleague in your industry – who has taken the plunge and ask them about their experiences, the highs the lows, what you need and how to get it. Most people who have been in your position will happily take time out to share their experiences, knowing how much it helps to have first-hand information before you decide.

If you are thinking of becoming a sole trader cameraman, for example, write down who you are going to get business from, at what daily rate and how many days a week or month they will need your services. Estimate how much your equipment will cost to hire or buy, how long it will take to get your first job and how much later your customers will pay. Finally, work out how much money you need to live on. Once you have written all this down try to construct a very simple cash flow chart (Excel is good for this) showing just the monetary ins and outs.

After doing this you should have, in your mind's eye at least, a view of whether your idea might work. Then, as an exercise, divide your projected income by half and increase your costs by a quarter. If the figures end up on the plus side, your business idea is very strong. Excellent. Get going.

If the difference between income and costs is marginal, don't worry. You still have a good business idea but the figures show what it will be like when you experience one of your toughest months. You must plan

physically ducking when walking past my bank, just in case the bank manager (who I had never met and who would not know me from Adam) saw me; in my mind's eye he would chase me down the road asking, with menace, for his overdraft back. Times have changed; banking nowadays is a competitive business so shop around.

Go to at least two banks, asking them the same questions, and compare their offerings. Make sure you talk to the small business department (they will take time to talk through your business) and make sure you have a local contact who is available to you in person (not in a call centre, abroad or via the internet). If you do not get what you need from them, try others.

Step four: Be realistic about money

If you are investing in your business always ask the bank to match that investment with an overdraft of equal value. Why? It is essential to have some money for a rainy day; equally, if your business needs more investment because of its success, you'll have that money in reserve. Importantly, it is always easier to ask at the outset for an overdraft; going cap in hand later gives the bank the impression that you failed to plan and your business will look like a high risk.

If your cash flow estimate shows you will be cash positive from day one, still organise a small overdraft for the start of trading. Why? Your first customer may not pay you as quickly as you think and it is far easier to ask before you experience a cash flow problem than head back to the bank with your begging bowl.

If you have no money to invest in a business which is likely to start with a negative cash flow but become positive a few months later, go for a loan from a government loan guarantee scheme (whereby banks can lend to small businesses with no financial security).

Step five: Get going!

You now have a plan, and a bank facility, and you haven't even looked for premises, done a day's work or made a penny of income. Exhausting work, this setting up in business. It is – but it can also lead to the most pleasurable business experience you will ever have because you'll be doing it all for yourself.

Next month, your first month and what to expect.



Step two: Have a plan

A simple truth is: the better the plan, the better the business. Builders rarely build houses without architect's plans and the same is true for businesses: no matter how large or small, you need to have on paper a realistic view of what might happen. I am not advocating spending thousands on a glossy business plan with cash flows, market trend analyses, etc, but putting the basics down on paper will show you whether your idea is a viable business or simply a pipedream.

for these eventualities – so build in some backstops.

If the plan just bombs then give up your idea, save your money – and do something else.

Step three: First backstop – the bank

A bank account is the fundamental start to any business and could be your first backstop. Banks are strange beasts and many people live in fear of their bank manager. I remember, as a student with an overdraft,