Starting a Retail Business

Expert knowledge means success

Contents

Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

Introduction

Despite rumours to the contrary, self-employment - especially in a retail business - isn't all it's cracked up to be. "If you build it, the customers will come," doesn't really work unless you have the tools to make your new retail business successful.

Some of the decisions and actions that have to be taken when a business is first established can have significant effects for some time. The foundations put in place at the beginning of the business are very important and will affect the survival of the business. This is as true for retail businesses as it is for any other business.

Anyone, who has never run his or her own business before, will soon find out that it is quite different to working for an employer. Every decision will be your responsibility although you can, of course, ask for advice.

Three of the most important personal qualities needed are:

- The right mental approach and physical stamina to work harder than ever before. Take a look at a book by Terri Lonier ("Working Solo", published by Wiley). For example, are you prepared to lower your living standards if need be? How will you cope when things go wrong? Are you willing to do a whole load of menial tasks? Is your family fully supportive of your plans?
- The right business skills - there are new skills you may have to learn - such as job pricing, bookkeeping and credit control. Can you make quick decisions? Are you patient - success might be a long time coming?
- The ability to ask for advice when you meet a problem that you can't solve yourself.

Not everyone is cut out to be self-employed. When you sit down and think about going on your own, you ought to be absolutely realistic in assessing your strengths and weaknesses. And make sure that your reasons for going solo are sound - being unhappy in your present job may not be a good enough reason. Perhaps what's wanted in a case like that is to get another job.

Planning

It's said that when Noah first started to build his Ark, it hadn't even started raining. Now that's good planning.

Of course, planning on paper is never the same as doing it in practice. Nevertheless, you should never start a business without proper planning. The more that you plan, the more problems you will identify and solve giving less chance of an unpleasant surprise when your business is up and running.

Some questions you should ask yourself are:

- What is the right business structure?
- What is my market?
- Who will want to buy from me and at what price?
- Do I have a unique selling proposition (USP) and, if so, how can I exploit it?
- How can I publicise and promote my business?
- Who is the competition?
- Will I make a profit?
- How much finance will I need?

Three Basic Rules

Every business needs a structured plan for the future. Whether or not your new business needs to borrow from your bank, the basic rule is: You must have a business plan.

The second rule is that you mustn't expect your accountant to prepare the business plan for you - he/she will certainly be able to help you but you must remember that the business plan is *your* blueprint for *your* business. You must understand how your business is going to work otherwise quite simply it won't.

Ask your accountant for guidance on business basics - things like strategy and marketing. If you get the right accountant, you should learn a lot from the relationship - much more than mere numbers. You should turn to your accountant as a coach to help you become a better business operator. This is a role that we have developed and it's proved to be invaluable to many new business owners and has made the difference between success and failure in the crucial early stages of the life of a business.

Business Format

Until April 2001, most people setting up a retail business would probably have chosen to trade as an unincorporated business. Generally, most small businesses need only consider incorporation into limited liability companies after trading for several years. Initially, a limited company may not be attractive for the following reasons:

- The limited liability is of relatively little protection for shareholders who are also directors, if banks, other sources of finance, or trade creditors require personal guarantees;
- The costs of complying with company law requirements - such as preparing statutory accounts, having an audit and preparing annual returns, are greater for limited companies than for sole traders or partnerships;
- The tax, national insurance and financial position of a sole trader is generally more flexible than for a limited company.

Since 6 April 2001, it has been possible to establish a business as a limited liability partnership (or LLP) for short - in fact it isn't a partnership at all but is a "corporate body" with a separate legal entity and identity to that of its owners (which is quite different to a normal partnership). An LLP offers the best of all worlds - limited liability protection but with none of the tax or NIC disadvantages of a limited company.

Which Type of Finance is needed?

There are two main categories of finance: debt (which means finance that is borrowed) and equity (which means finance provided by "partners" who take a stake in your business).

Debt Finance

With debt finance, the lender will want repayment of the loan at some stage and, in the meantime, the loan will carry interest. Debt finance can come from several sources:

- From you - to set up the business plus the profits you retain in the business;
- From your bank - for short-term finance for working capital, a bank overdraft is usually the solution;
- From your bank, hire purchase companies or mortgage lenders - hire purchase and leasing (over three to six years) can provide the answer for some fixed asset purchases while a mortgage loan will provide finance over an even longer term (perhaps 25 or 30 years) for property purchases;
- From debt factors - financing packages linked to your outstanding sales debtors are known as factoring or invoice discounting arrangements. These schemes are difficult to put in place in "start up" situations because the finance houses often require evidence of the business' financial record.

The Small Firms Loan Guarantee scheme (SFLG) – now called the Enterprise Finance Guarantee Scheme - is a debt package offered by the clearing banks and other institutions to businesses under five years old with a turnover of less than £25 million. A loan under the SFLG can provide finance up to £1m for ten years.

The Government guarantees 75% of the loan in return for a 2% premium on the outstanding balance of the loan. If you need funding for your business, but cannot secure a loan, you may be eligible for the EFG[1]. Its aim is to encourage and support additional commercial lending to viable businesses with an annual turnover of up to £25 million that lack security, and are seeking loan facilities of between £1,000 and £1 million. You will still need to prove to the lender that the business proposition is viable and that you can repay the loan in full. The lender is not obliged to provide finance, even if you believe your business is eligible.

Equity Finance

Somebody providing equity finance to a business operated as a company will usually take their reward by a share of profits but will not be entitled to "repayment" (getting their money back) until the shares in the company are sold or redeemed. Equity finance is often provided by:

- Venture capital organisations - usually in amounts from £250,000 or more, in return for a minority stake in your business;
- Clearing and merchant banks - through their development capital subsidiaries, the banks are increasingly taking a shareholding interest in some of their customer's businesses.

Factors for Success

Retailing success depends on location. The RICS publish a useful Business Property handbook available from 0207 334 3745. There are probably two methods to follow when thinking about the location of your new retail business:

- The Intuitive Method;
- The Subjective Method.

Intuitive method

The intuitive method is the most common method used although it is risky. It is based on the "Well, it looks good to me" approach. Little planning or analysis goes into a decision like this. The retailer selects the site simply due to its availability and the "feeling" that he or she will succeed. By simply looking at the site, he or she decides whether it's the right spot.

	Factor	Grade
1	Centrally located to reach my market	
2	Merchandise or raw materials readily available	
3	Nearby competition situation	
4	Transportation availability and rates	
5	Prevailing rates of employee pay	
6	Parking facilities	
7	Adequacy of utilities (sewer, water, power, gas)	
8	Traffic flow	
9	Taxation burden	
10	Quality of police and fire protection	
11	Housing availability	
12	Environmental factors (schools, cultural, community activities, enterprise of business people)	
13	Physical suitability of building	
14	Type and cost of lease	
15	Provision for future expansion	
16	Overall estimate of quality of site in 10 years	
Grades: A = excellent, B = good, C = fair, D = poor		

Source: Starting and Managing a Small Business of Your Own, Small Business Administration, Vol. 1, 3rd ed.

Another version of the intuitive method is to judge the attractiveness of a retail location based on the rental or sale price. This assumes that the more costly the location the more likely it is that customers will flock to the retail store with a high desire to buy armed with pockets bulging with cash or with their cheque books and credit cards at the ready.

The intuitive method may be the only method available if you are exploring new markets for a new and unique product line. Paid research is often very costly for small businesses.

Subjective method

The subjective method is somewhat more deliberate than the intuitive method. It uses more analysis than the intuitive method. However, this analysis is based upon the views of the potential retailer. Often, the subjective method relies on a checklist to find out whether a community or location is right. An example of a checklist, derived from the US Small Business Association is as follows:

Other Factors

Other factors which you should take into account include the following:

- Which type of business are you proposing (shop size, service extent, and broad product categories)?
- Which types of customers will you seek (geographic, demographic, psychographic, product purpose, payment method, etc.)?
- Which types of products and services will you offer?
- Which services will be charged for and which will be offered free?
- Who will be your major competitors?
- What will you try to do better or differently than your competitors (sizes, styles, quantities, brand choice, parking, delivery, layaway, returns, prices, credit, store atmosphere, entertainment, etc.)?
- What will be your relative price levels (in relation to competitors)?
- What will be the name of your business?
- What knowledge, skills, and experience do you have to start that retail business?
- What additional knowledge, skills, and experience do you need to start that business?
- How will you get the additional knowledge, skills, and experience needed to start the business? (Indicate information sources: specific courses, type(s) of part-time and full-time preliminary jobs, reading subjects, types of internships, executive interviews, etc.).

Source: Extracted from a checklist at: The James Madison University: http://cob.jmu.edu/bertsctm/retailplanningbizvision.htm

Income Tax

HM Revenue & Customs (HMRC) must be notified as soon as possible after the business starts. Make the notification to the tax district covering the address in which the business is located.

Obligation to notify

New businesses have three months to register with HMRC from the last day of the month in which self-employment began. For example, anyone who begins self-employment in January 2007 must register by 30 April 2007. If a new business fails to register within the three month period, it could face a penalty of £100 unless they have a reasonable excuse.

You can register your business using the Helpline on 08459 15 45 15. It is open 7 days a week from 8am to 8pm and calls are charged at local rates. New registrants are issued with a new Starting up in Business guide covering everything about tax, National Insurance and tax credits someone starting to work for themselves needs to know.

HMRC leaflet P/SE/1 '*Thinking of working for yourself?*' explains how to register and tells people thinking of starting up how they can get a free video which shows what may be involved. The leaflet is available from the Helpline for the newly self-employed, HM Revenue & Customs Enquiry Centres, Jobcentres, Business Links, other appropriate locations and on HMRC's website at: www.hmrc.gov.uk/leaflets. The Starting Up in Business guide is also available from the helpline and on the website at: www.hmrc.gov.uk/startingup.

Tax returns and tax payments

- A tax return must normally be completed and sent back to the Inspector of Taxes by 31 January following the end of the tax year on 5 April. The amount of tax due must also be entered on the tax return. HM Revenue & Customs will calculate the tax liability if the return is sent in by 30 September (four months earlier);
- If HMRC issues a tax return after 31 October following the end of the tax year, then it must be submitted within three months from the date of issue;
- If it is issued after 31 July and the individual wants HMRC to calculate his or her tax liability, then it must be submitted within two months from the date of issue;
- There is an automatic penalty of £100 where a return is made late, unless there is a reasonable excuse. If the return is six months late, another penalty;
- The tax return for 2010/11 income and gains should therefore be submitted before 31 January 2012;
- All income tax and Class 4 National Insurance contributions for the year ended 5 April must normally be paid by the following 31 January. There will be interest to pay on amounts outstanding after that date;
- Payments on account for income tax may be required on 31 January in the year of assessment and the following 31 July. Each interim payment is normally half the amount of the tax and NIC payable for the preceding year, but may be reduced to half the current year's liability if less. Interest is charged on late payments on account, but a surcharge only arises if the payment on account is not made by the date that a surcharge would arise on the balancing payment (that is, normally 28 February following the end of the tax year).

It is important to make provision for tax liabilities as soon as possible from the start of the business. Normally, new businesses have to pay the equivalent of 150% of the first year's tax liability in one lump sum on 31 January following the first tax year.

Pre-trading expenditure

Costs will often be incurred before the business has started trading. Income tax relief is given, provided the expenditure is of a revenue nature and incurred for the business within seven years of starting to trade. It is therefore important to keep a careful note of such expenditure. Pre-trading expenditure is deducted as an expense on the first day of trading.

Introduction of private assets

Where an individual introduces private assets into a business, then the appropriate tax relief will be available.

Where the assets are trading stock, they should be introduced at their market value. A capital gain may arise on their appropriation to stock, but there is unlikely to be a capital gains tax charge because most assets worth less than £9,600 (tax year 2008/2009) are exempt. Should the gain be chargeable, it can be 'rolled over' against stock value. However, this will result in increased business profits, thus increasing the income tax and NIC liabilities.

In the case of motor cars previously used for private purposes, capital allowances are available. Normally, a car is introduced into the business at its market value and the allowances computed accordingly.

Goods for own use

Any business assets appropriated for private purposes, for example, a retailer taking goods from the shop for private consumption, are brought into charge to tax at their market or retail value.

Normally, and unless very insignificant amounts are involved, a realistic adjustment to trading profits is made. Where estimates are used, this should be fully disclosed on the self-assessment tax return.

Where significant amounts are involved as, for example, where a builder might construct or renovate a property for own use, it is advisable for all materials to be bought in the builder's name, rather than through the business. Likewise, any labour diverted from the business has to be paid for at market value.

In all cases, the VAT implications must be considered as well.

National Insurance

A self-employed individual or partner is liable to both class 2 and class 4 contributions:

- Class 2 contributions are a flat rate - check with us for the latest figures. If profits are expected to be below a certain figure, then the liability can be exempted for the year - again, check with us for the latest figures;
- Class 4 contributions are based on assessable profits and are payable at a fixed percentage on a band of profits with a lower and upper limit - check with us for the latest figures. The Class 4 liability is payable with the income tax liability for the year.

Someone who is self-employed is unable to obtain jobseeker's allowance and can claim only a flat rate incapacity benefit. Therefore separate insurance cover should be considered.

Early Years' Losses

Special tax relief is available where a business incurs a loss in any of its first four tax years:

- Where the loss has arisen in any of the first four years from commencement of trading, relief can be claimed by offsetting the loss against the taxable income of the claimant in the three years before the year in which the loss is made. Check with us for a fuller explanation.

It should be noted that:

- All claims should be made within 12 months from 31st January following the year in which the loss arises;
- Relief for losses is an all-or-nothing claim and may lead to personal allowances and lower rates of tax failing to be utilised. Tax relief on personal pension subscriptions and retirement annuities may also be affected.

Capital Allowances

Some types of capital expenditure can benefit from tax relief, through the system of capital allowances. The most important allowances are for plant and machinery, which includes fixtures and fittings and motor vehicles.

Note that:

- Where an asset, such as a car, is used privately as well as for business, then only the business proportion can be claimed;
- Motor cars and plant and machinery for leasing or letting on hire do not qualify for the annual investment allowance;
- Capital allowances are deducted as a trading expense in calculating taxable profits;
- Where capital expenditure is incurred before the business starts, the allowance is given as if the expenditure had been incurred on the first day of trading. The rate of allowance is determined by the date on which the expenditure was actually incurred.

On the Business Link website, there’s a useful summary of what you can claim by way of capital allowances:
http://www.businesslink.gov.uk/bdotg/action/layer?topicId=1086445219

Value Added Tax

Businesses quickly discover that they have to act as tax collectors for HM Revenue & Customs (HMRC) and may have to devote a lot of time to calculating and accounting for VAT. It is important to have a grasp of the VAT rules in the very early stage of the development of the business. HMRC leaflets (in particular "Should I be Registered for VAT?") are recommended as introductory reading.

Month ending	Notify on VAT 1 by	Registration Date
31 January	2 March	1 March
31 August	30 September	1 October

Registration

VAT is a tax on business turnover and every business must register for VAT if its taxable supplies are more than the registration thresholds. These thresholds are normally increased in line with inflation each year. From 1 April 2012, the registration limit is £77,000. Normally a business will only have to consider its taxable turnover over the previous 12 months, unless taxable supplies are expected to be more than the threshold within the next 30 days.

Registration is compulsory if:

- At the end of any month, the total value of taxable supplies made in the past 12 months are more than the compulsory registration limit (check with us for the latest figure). A VAT form 1 must be completed and sent to HMRC within 30 days. The date of registration is the first day of the second month following the relative month.

Example

- At any time there are reasonable grounds for believing that taxable supplies of more than the compulsory registration limit (check with us for the latest figure) will be made within the next 30 days. The date of registration is the date when it is known that the limit will be exceeded.
- Some VAT incurred on purchases before registration can be reclaimed and it is important to identify this.
- In particular, tax on services that have been bought can only be reclaimed if they were supplied no more than six months before the date of registration.

Penalties

Every non-registered business must watch the threshold very closely. If a business should have been registered at an earlier date, HMRC will levy VAT on the business turnover from the date it should have been registered, less any allowable VAT incurred on purchases.

Additionally, a penalty might be levied unless the business has a reasonable excuse for its failure to register. Ignorance of VAT rules is not an excuse.

Voluntary registration

If a business with a turnover of less than the registration limit wishes to register, then it may do so. An obvious advantage in 'voluntary registration' is that VAT on purchases may be recovered, whereas an unregistered business can only obtain relief if the cost of VAT can be deducted when calculating taxable profits.
In general, when supplying goods and services to the public, non-registration will allow a competitive edge to be obtained and might increase profits depending on the amount of VAT on purchases which cannot be reclaimed.

Goods and services from non-registered suppliers may not be attractive to VAT registered customers, because this will normally increase the cost to them. Non-registration also indicates the size of the business and might reduce credibility.

Accounting for VAT

Every VAT registered person must account for 'output' VAT on the value of its taxable business supplies.

- Most outputs are standard-rated and VAT has to be charged at 15[2]%;
- Some outputs are zero-rated. They are still taxable but at the zero rate of VAT;
- Other outputs are exempt from VAT. This means that no VAT is charged on the exempt supply.

The important distinction between an exempt output and a zero-rated output is that input VAT can be recovered if it relates to zero-rated outputs, because they are taxable, but not if it relates to exempt outputs. It is important that every business determines the correct rate of VAT to apply at an early stage, so that it charges all the VAT it must pay to HMRC, and it restricts its claims for input VAT to the portion reclaimable.

There are penalties for large under-declarations of VAT, unless there is a reasonable excuse. There are also interest charges where VAT is paid late.

The VAT return

A return of the value of outputs less inputs must normally be completed on a quarterly basis, and sent in within a month of the end of the quarter. Where output VAT exceeds input VAT, the balance must be paid to HMRC within a month of the end of the quarter, or up to seven days later if paying by credit transfer. There is a penalty system if returns or payments are made late. HMRC will accept monthly, rather than quarterly, returns, provided this is agreed with them in advance. The extra paperwork can be worthwhile if the business consistently reclaims VAT. This would occur where a business mainly makes zero-rated supplies, so that the value of inputs is more than the value of output VAT on any standard-rated sales.

Small businesses - annual accounting

Small businesses with a turnover of less than £1,350,000 can use an annual VAT accounting system. Nine equal monthly payments are made by direct debit (based on an estimate of the total VAT due) and the tenth payment, to balance the account, is sent in with the annual return.

Cash accounting

Small businesses can account for VAT on a cash paid and received basis, rather than on an accruals basis, if their turnover is likely to be less than £1,350,000. Where a small business has to wait a considerable period to be paid by its customers, this method of accounting might be beneficial.

Special schemes

There are several special schemes which may be used by retailers to apportion sales that are both standard-rated and zero-rated. Discussion of the schemes themselves is outside the scope of this paper - refer to VAT Notice 727.

Partial exemption

A business that makes both exempt and taxable supplies has to make sure that it keeps adequate records of its supplies and purchases. The bookkeeping system should allow for purchases to be segregated into those relating to exempt supplies and those of a standard - or zero-rated nature.

Only input VAT on supplies attributable to taxable outputs can be reclaimed.

Where the input VAT relates to a general supply that cannot be directly attributed, only a proportion of the VAT can be reclaimed. This is explained in more detail in HMRC leaflet 'Partial Exemption' 706. Where the

Buying an existing business

Special VAT rules apply where an individual starts up in business by taking over an existing concern.

If various conditions are satisfied, VAT will not be charged on any of the assets purchased. HMRC will allow the new owner to take over the previous owner's VAT registration number. This should normally be resisted because the new owner not only takes over the VAT number, but also any liabilities due to HMRC by the previous owner.

The new owner should ask for a new VAT registration number. Further information can be found in VAT leaflet 'Transfer of a Business as a Going Concern'.

Taking on Employees

If a new business takes on employees, it is important that the employer appreciates the burden of complying with the PAYE regulations.

Complying with PAYE

Employers must deduct income tax and employees' National Insurance from salaries, and account for this to the Collector of Taxes, together with their own employer's National Insurance contributions:

- Amounts must be paid to the Collector 14 days after the end of the tax month, i.e. by the 19th day of the following month;
- Interest can be charged on amounts paid later than 19 April following the tax year;
- If the employer fails to collect the full amount of PAYE and national insurance that is due, the outstanding amount may be collected from the employer and not necessarily from the employee;

Self-employed labour

One way to avoid PAYE and NIC regulations is to use self-employed labour, but this can involve complications. HMRC will want to be satisfied that the self-employed people are indeed genuinely self-employed, and not employees in another guise. Employers may find it very difficult to convince HMRC that people are self-employed.

If HMRC thinks that people are not self-employed, then employers could have to pay a considerable sum of back income tax and national insurance which should have been deducted under the PAYE system. This amount can be recovered from the employee, but it is often very difficult to do so. If there is any doubt as to whether a potential recruit should properly be treated as employed or self-employed, employers should contact their Tax Office and provide the facts to the Inspector nominated to give a speedy ruling.

Spouse as an employee

It is normally worth ensuring that both husband and wife have some earnings so as to make use of the personal tax allowances. For example, many self-employed business people pay their spouses a salary for help in running the business.

- It is normally possible to justify an annual salary of say £5,000 for answering the telephone, making appointments, helping with administration, etc;
- HMRC will insist that the salary is actually paid to the spouse;
- Unless the spouse has other income, the salary would be covered by his or her personal allowance and will therefore save tax;
- It is important to keep the salary below the NIC threshold (check with us for the latest figure) to avoid having to pay NICs;
- Where spouses are heavily involved in the business, it might be better to bring them in as partners so that they can share in the profits without the need to apply PAYE.

Pension and Private Insurance

Self-employed people receive only the basic State pension in retirement and do not enjoy the pension benefits provided by many employers. It is therefore important to make additional provisions.

Pension

The pension area is a minefield – please ask for our publication:
9–Pensions Advice

Private insurance

Self-employed people, not being employees, are not covered under any employer's sick pay, medical insurance or group life schemes; and few State benefits are available to them. For these reasons, self-employed people should consider the following personal insurances when starting in business or at least as soon as profits and cash flow allows:

- Term life insurance. This is the cheapest type of death cover and can be for any number of years, for example, 10 or 15 years. There is normally no tax relief on the premiums paid. If the premiums are paid under a personal pension scheme, up to 5% of NRE could be paid each year and qualify for tax relief;
- Permanent health insurance. There is normally no tax relief on the premiums;
- Private medical insurance. There is normally no tax relief on the premiums. In addition, taxpayers should consider whether their spouses should be insured, particularly if they have young families.

Setting up an Accounting System

Perhaps one of the greatest disadvantages of being self-employed is the amount of paperwork needed to comply with statutory regulations, for example, PAYE and VAT.

Accounting records

It is vital that a business starts up with a set of books that are suitable for its needs. There is no point in maintaining books which are a duplication of existing records, but it is equally important to ensure that all business transactions are properly recorded.

- From a tax point of view, it is a statutory requirement to keep adequate business records. In extreme cases, penalties may be levied for a failure to keep proper records. Business records and associated personal tax records should normally be kept until five years after 31 January following the year of assessment;
- As an alternative to the more formal books of accounts detailed below, a business may operate quite efficiently by using, for example, the 'Simplex' range of books, plus a sound filing system for invoices so as to keep track of sales, statements, etc.;
- Whatever system is adopted, it must be maintained regularly to provide accurate details of the trading performance;
- If the business deals in second-hand goods, a comprehensive stock book has to be maintained so that the correct amount of output VAT can be calculated. See the relevant HMRC leaflets;
- For dealers specialising in low value bulk volume goods, for example, stamps, a method of global accounting has now been introduced for VAT purposes.

A list of essential accounting books and their purpose follows. You may also wish to consider computerisation. Many different programs are available and you should discuss your business requirements with one or two specialist computer centres or check with us.

Cash book
To record all payments made into, and amounts drawn from, the business bank account. The cash book should be reconciled regularly with the bank statements.

Petty cash book
To record all small amounts of sundry expenditure. A float of money should be maintained and replenished at the end of each week/month.

Sales book
To record sales invoices or daily cash takings. This book can be used to note amounts banked and cash-in-hand.

Purchases book
To record all purchases.

Ledgers
Where the business is offering credit to customers, it should maintain a debtors' ledger, which will record details of transactions with each customer, for example, invoices, credit notes and payments received. Similarly, a purchase ledger should be maintained if the business has several suppliers. These ledgers must be reconciled regularly with the sales and purchase day books.

Wages book
This is essential to maintain a record of all payments to employees, as well as details of deductions made.

VAT book
A record summarising the make-up of amounts included in each VAT return is helpful to satisfy HMRC that VAT has been accounted for correctly.

Debt control

Cash flow
Cash flow is one of the biggest problems encountered by small businesses, in common with many large concerns. If a small business allows its customers unlimited credit, it will soon collapse through lack of cash or because its debtors have become bankrupt. It is essential, therefore, that a new business establishes a system of debt control.

The debtors' ledger is essential for debt control. Even more important is to establish the credit worthiness of potential customers. This may be done either by contacting a credit agency or by asking your bank to carry out investigations. Where possible, take up credit references.

Factoring
Businesses can consider 'factoring' to give a cash flow benefit. Factoring essentially means that a finance house or bank buys the outstanding debts of a business and collects them for itself. The factor will deduct a percentage of the total debt as a fee and the business is relieved of both the risk and effort associated with debt collection.

Bad debts
Specific bad debts are deductible in calculating taxable profits. The VAT element of the debt is normally paid to HMRC at the time of the original invoice. If the debt is still unpaid six months after payment is due, a claim for relief can be made.

There is automatic relief where cash accounting is used, because the VAT element would not be paid to HMRC until the debt is paid.

Legal Considerations
There are other important things for you to consider:

- Business name - if you intend to trade on your own or in partnership, you should read "Business Names - Guidance Notes" issued by the Companies House before you choose a name for your business - please ask us for a copy. You may also want to register a "domain name" if you intend to use the Internet as part of your business promotion - check with us for details on how to do this. Once you have selected the business name, you have to display certain information in a prominent place where you work (even from home). You must also show this information on certain documents including business letter headings, e-mails, websites, invoices and quotations;
- Company Law - if you decide to form a limited company or limited liability partnership, you will need to know about special rules and regulations that govern such organisations. In particular, your bookkeeping standards will need to meet the requirement of the Companies Act. You will have to submit your annual accounts to Companies House. Some

companies can avoid the need for an audit of their accounts - please check with us about the current position;

- Premises law - governing, for example, fire hazards, health and safety;
- Environmental law - making sure that nothing you do has an effect on the environment;
- Copyrights, patents and trademarks - to protect your products and ideas;
- Employment law - the "ins and outs" of employing people;
- Licences - will you need a licence to trade?
- Trading laws - ensuring that the laws relating to the sale of goods and the safety standards relating to them are met;
- Trading Terms - it is useful to have your trading terms set out in a formal way as this may avoid disputes later on;
- Data Protection Registration - if you keep information about people on a computer system, you must register with The Data Protection Registrar;
- Disability Discrimination law – governing for example the requirement to make reasonable changes to premises to accommodate disabled persons;
- Other Laws - at some stage in your plans, you may need to take legal advice on how the law affects your business. We can talk to your existing solicitor or, if you don't already have one, introduce you to a solicitor who is experienced in these matters.

Tips for Success

Here are 10 tips for success in running a retail business:

1. Before starting the business, entrepreneurs should attain adequate capital and keep fixed costs low. A rule of thumb to define adequate, is to get the best estimate available of all costs, then double it. As the business begins to earn money, the owner should avoid the temptation to increase fixed costs. Without some extra financing a small business has no margin for the other factors of failure.
2. During slow economic activity/recession, consider waiting to start the business until the economy turns around, if the product/service is economic sensitive.
3. Starting with adequate capital and developing a close relationship with creditors can help eliminate creditor problems.
4. Following good accounts receivable practices, particularly ageing of accounts receivable and continuous contact can help to avoid slow accounts receivable.
5. Good record keeping with the help of a good accountant, and having adequate capital and good credit relations can help overcome tax problems.
6. Having a diversified customer base can help eliminate the problems of the loss of or over-reliance on a major customer.
7. Entrepreneurs who lack management experience and skill can work for someone else to gain these skills before starting their own business.
8. Partners can be an advantage or disadvantage to the entrepreneur. On the positive side, partners increase capital and skills, but on the other hand, a bad partner can be the cause of business failure. This is understandable, but can be counter-argued by the many successful entrepreneurs who recommend having a partner. The implication is to be careful when selecting a partner and to have a clear understanding exactly what each partner's responsibilities and share of the profits will be.
9. Small businesses should expand slowly with adequate capital to support growth; especially if business activity may not be as high as projected. Keeping the fixed costs low can also help.
10. Good record-keeping and financial control can help minimise theft.

Card Processing

Retail customers expect to be able to pay for their purchases using both debit and credit cards. Accepting card payments has a number of advantages for retail businesses, from opening new sales channels - for example telephone ordering - to reducing the need to hold cash. However, you should check on transaction costs and balance these against the increased revenue you may gain by accepting cards. You also need to put precautions in place, as card payments can expose you to an increased risk of fraud. Business Link, the Government provider of practical advice for business suggests the following advantages and disadvantages of accepting cards.

Advantages:

- Responding to customer preferences - people expect to be able to pay by card;
- Encouraging impulse purchases - the customer doesn't need to have cash with them;
- Avoiding lost sales opportunities - if a customer leaves to get cash they may not return;
- Reaching a wider customer base - you can accept payment by phone and online from customers who can't reach your premises;

- Cashflow improvements - card payments clear more quickly than cheques;
- Improved security - you hold less cash on your premises;
- Easing your admin - a monthly statement of card transactions is easier to reconcile than numerous cash transactions;
- Cards can be used internationally and currency conversions are handled automatically - they're an important payment method for tourist-sector businesses or those selling to consumers overseas;
- Cards have higher spending limits than cheques and there's a reduced risk of payments being declined.

Disadvantages:

- There are costs involved - though these aren't usually prohibitive;
- Accepting cards can increase your exposure to fraud;
- You will need to set up separate agreements if you want to accept cards from different issuers;
- You will need to train staff, both in the technical and administrative issues as well as fraud prevention measures.

For more details on accepting debit and credit cards request our publication
689-Debit and Credit Cards

Chip and PIN cards

Chip and PIN cards were introduced in 2004. Transactions using these cards are verified by the customer entering a PIN code rather than giving their signature. They provide a more secure method for over 40 million people in the UK to use their credit and debit cards. Chip and PIN cards are expected to combat the increasing level of plastic card fraud which cost the UK nearly £250 million from fraud on lost, stolen and counterfeit cards in 2004. In the first six months of 2005, plastic card fraud fell by 29%: an early endorsement that using Chip and PIN was having a positive impact on fighting fraud. Total card fraud was also down by 5% in the first six months of 2006 but card-not-present fraud, including online transactions actually increased by 5% and online banking fraud rose by 55% against the previous year indicating a change in fraudulent behaviour. To tackle the increase in online fraud, APACS, the payments association, is considering trialling two-factor authenticators (initially in financial institutions) that combine chip and PIN with Verified by Visa and MasterCard SecureCode technology to secure the payment process.

Chip and PIN cards currently counteract fraud in two ways:

- the chip means that it is difficult to counterfeit or copy the card;
- the PIN makes it harder for a criminal to use a lost or stolen card.

E-commerce

The growth of websites has been phenomenal. Figures released by Netcraft, and internet research company, in February 2007 indicate that there were 109,000,000 websites with domain names registered out of which 47 to 48 million were active sites.

Having a website, allows a business to market its products or services to potential customers in any country at any time of day. Customers will often research a company and it products via a website, prior to purchase. For a retailer, orders via a website can save on both operational costs and order processing, speed up the payment process and allow the retailer to build up customer data profiles for improved marketing.

The IT & E-commerce section of www.businesslink.gov.uk - the Government website with practical advice for business - provides useful information on the following:

- Planning for e-commerce;
- Interactive tool to help you get the right website for your business;
- Website hosting options;
- Choosing the right Internet service provider;
- Options for connecting to the Internet;
- Best practice in web design;
- Creating an online shop;
- Accepting online payments;
- Fulfilling customer orders;
- Maintaining your web content and technology;
- Trading online;
- E-commerce and the law;
- Developing an e-marketing plan;
- Generating business from your e-marketing plan;
- Securing your e-commerce systems;
- Managing risk in e-commerce;
- Benefits of intranets and extranets;
- The essentials of mobile commerce;
- E-marketplaces, online auctions and exchanges;
- Common e-commerce pitfalls

Please ask for our publication:
477–Is your website breaking the law?

Sources for Further Information

Retail Trade Associations

- British Retail Consortium
  Tel: 020 7371 5185
  www.brc.org.uk
- British Shops & Stores Association
  Tel: 01295 712277
  www.british-shops.co.uk
- Radio, Electrical & Television Retailers' Association
  Tel: 01234 269110
  www.retra.co.uk

Books and Publications

- Successful Marketing for the Small Business, by Dave Patten, published by Kogan Page, ISBN: 0749435240.
- Retailing, by Leigh Sparks (Editor), published by Routledge, an imprint of Taylor & Francis Books Ltd; ISBN: 0415087236.
- Winning Business: How to Use Financial Analysis and Benchmarks to Outscore Your Competition, by Rich Gildersleeve, published by Gulf Publishing Company; ISBN: 0884158985.
- Ready or Not... Get Set Go (An Entrepreneurs Guide to Starting and Maintaining a Successful Business), by Sheila A. Taylor-Downer, Debra L. Hamilton, Sharon A. Taylor, Sheila A. Downer, published by Professional Prodigy; ISBN: 097029090X.
- The "Which?" Guide to Starting Your Own Business, by Jane Vass, published by Which? Books; ISBN: 0852027699.
- The Small Business Handbook: the Entrepreneur's Definitive Guide to Starting and Growing a Business, by Philip Webb, Sandra Webb, published by Prentice Hall; ISBN: 027365432.
- Retail Automation - bi-monthly, published by WRA.
  www.worldwidera.com
- Retail Technology magazine - is the leading monthly magazine serving the needs of readers involved with specifying and purchasing of IT products and services for medium to large retailers. www.retailtechnology.co.uk
- Retail Week - covers the entire UK retail sector. www.4retail.net

Conclusion

Starting a business is an exciting challenge, but quite apart from the basic commercial risk, there are many pitfalls for the unwary. It is important to identify the potential problems, as well as the benefits, as early as possible, preferably in the business plan stage. It is essential to seek competent professional advice on accountancy, tax and legal matters from the very start - preferably well before the start of trading.

Further Information

This publication is for general interest - it is always essential to take professional advice on specific issues.

We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

Important Notice

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References:

[1] Find out about the Enterprise Finance Guarantee on the Department for Business, Innovation & Skills (BIS) site at: www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/enterprise-finance-guarantee

[2] In his Pre-Budget Report on 24 November 2008 the Chancellor announced that the standard rate of VAT will be reduced to 15% on 1 December 2008. This means that for any sales of standard-rated goods or services that take place on or after 1 December 2008 providers should charge VAT at the new rate of 15%. The 15% rate will remain until 31st December 2009, and from 1 January 2010 it will revert to 17.5%.