

A Guide to Setting Up and Running a Business

Find out how you can set up and look after your Limited Company



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If you're newly self-employed, you have a wide range of options open to you. You can work through your own Limited Company, join an umbrella company or operate as a sole trader. If you're going into business with one or more business partners, you could also form a partnership.

The most popular of these options for contractors and small businesses is the Limited Company. Although it means you have obligations to HMRC and Companies House, it also allows to you maximise your take home pay.

Whatever status you choose, the principles of good cashflow, financial planning and promotion remain the same.

In this guide, we explain how to set up, manage and promote your new business.



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Setting up Your Limited Company

To set up your Limited Company, you need to complete three steps:

1. Name your company

For many people, this is the hardest of the three stages. Ideally, your company name will tell customers what you offer, but not sound too similar to other registered companies.

It shouldn't imply any connection with government bodies and there's a list of words and expressions that are not allowed in company names. For consistency, you may also want your website and email addresses to match the name of your business.

Boox Tip



Find out if the company name you want is available with our online tool.

2. Pull the paperwork together

You will have to submit three documents:

- Form IN01 – your formal company registration form. It contains information such as:
- your proposed company name
- whether your company is a public limited company (Plc) or a private limited company (Ltd)
- the address of the company's registered office
- details of the directors and company secretary, if you have one
- statement of capital, ie who owns the shares in the company
- statement of compliance with the Companies Act 2006

- Memorandum of Association – this confirms every shareholder's intention to hold at least one share in the company. You can't amend this once your company is incorporated
- Articles of Association – your own guidelines for managing the company. They'll cover:
 - the directors' powers and legal responsibilities
 - details of the company's shares, dividends and how they will be distributed

Companies House will apply its own model articles to your company by default if you choose not to submit your own. Everyone at the company must comply with the Articles of Association.

3. Register your Limited Company

Send your documents to Companies House by post or online. Once it's checked everything over, Companies House will send you your Certificate of Incorporation.

Boox Tip



If you sign up to our contractor accountant service, we'll take care of the whole Limited Company set up process for you - for free.

Invoicing and Cashflow

Vital to the financial health of any business – whether large or small – is good cashflow.

Several factors can affect your cashflow. If you buy stock with your business's cash reserves, you'll be short until you've sold the goods and received payment.

If you're too generous with the terms you offer your customers – or are too slow to chase late payments – you'll see your money leaving your account quicker than it comes in.

So, at the heart of good cashflow are prompt payments from your clients.

Obviously, you're never going to get complete control the date your clients pay you. But there are a number of steps you can take to avoid unnecessary delay.

Here are what we believe are the key principles of good cashflow.

A watertight contract

Agree with your clients when you'll invoice them and when they'll pay you. Write this into your contract, stating what you'll do if you don't get paid on time.

Boox Tip



If you're worried about the creditworthiness of a new client, credit check them before committing yourself to anything.

A well designed invoice

Create an invoice template that you can fill in quickly and easily. Include:

- your name / company name – if you work through a Limited Company, show the name as it appears on your certificate of incorporation. Include any trading names
- your address and contact details – use the address where legal documents can be delivered, your telephone number and email address - the easier it is for clients to raise queries, the quicker you'll be paid

- your client's business name and contact address – they need these for their own tax purposes
- a unique invoice number – all invoices must have a unique number (it also helps when chasing payments)
- description – itemise clearly the products, services or time period your invoice relates to
- the client's purchase order (PO) or reference – this helps your client's accounts people match your invoice with their internal purchasing system
- the invoice date – you and your client will need to know the financial year and VAT quarter your invoice relates to
- the amount – show separate chargeable items and include the total sum
- the VAT amount and your VAT number – if you're VAT registered, add VAT beneath the sub total and include your VAT number on your invoice
- the total amount owed – the subtotal plus the VAT (if applicable)
- your terms – state the payment terms you agreed in your contract.
- how to pay – give clients a good range of payment options. For electronic payments, ensure you provide the correct bank account and sort code details

Microsoft Word and Microsoft Excel provide useful invoice templates that you can download and modify.

Boox Tip



Consider adding this wording to your contracts and invoices to encourage prompt payment:

"[Your name] will exercise our/its/my statutory right to claim interest (at 8% over the Bank of England base rate) and compensation for debt recovery costs under the Late Payment legislation if payment is not received within the agreed terms."

Invoicing and Cashflow

Good timing

The ideal time to get your money in is a week or two before your big outgoings are due to be paid. Where possible, time your invoices so their due dates give you plenty of time to iron out any queries that could delay payment. Of course, the timing of your invoices will also need to be appropriate to your contract, which will generally fall into one of these two broad categories:

- long term – for these assignments, billing on the same date each month sets a regular and predictable pattern and will let you tackle any late or non-payment problems before they get out of hand
- short term or one-offs – for ad hoc projects, consider invoicing a percentage up front with the balance due on completion. Avoid agreeing to be paid in full upon completion unless the project is short or you know the client well

Some businesses dictate payment terms of 60 or even 90 days to their suppliers. If a client presents you with terms like these, weigh up their effect on your short-term cash flow against the long-term value of the client before taking the work on.

Boox Tip



Incentivise your clients to pay quickly by offering a discount for settling invoices within say, seven days or by setting up a direct debit or standing order. Many of the big utilities do this – why shouldn't you?

Effective credit control

Decide how you'll approach late payments. A gentle reminder is usually enough, but be ready to take things further if necessary.

In most cases, a simple oversight on the client's part is usually the reason behind a late payment. In the interests of diplomacy, give the client the benefit of the doubt. Act soon though, so as not to miss the next payment run.

If this doesn't do the trick and you're not getting any joy after follow-up calls, write to your client. Include the terms you agreed and demand your payment. Set a deadline and say what you'll do if the demand isn't met. You could, for example:

- withdraw your service
- cancel the contract
- engage a debt collector
- start legal action

Boox Tip



Think carefully before you threaten any action. If your deadline passes, you'll need to make good on it to have any chance of success.

Accurate records

Set up a record keeping system that shows you, at a glance, what's due in and what's due out at any given time. This will help you plan for the immediate future and deal with any unforeseen events such as cancelled work, bad debts or emergency expenditure. In particular, keep an eye on your VAT liabilities. If you're on the standard VAT accounting scheme, you may owe HMRC VAT on some invoices before they're paid.

Prudent purchasing

Making big purchases outright is usually cheaper than hire purchase or other credit schemes in the long run. However, assess how they'll affect your cash flow before you commit. If they'll leave you short, you may be better off spreading the payments.

Keep up to date with your monthly payments. Firstly, this will help you avoid punitive fees and extra interest. Secondly, it will also build goodwill, which will help if you ever need to ask for extra time to pay. Thirdly, it will contribute to your good credit rating, which in turn enables you to shop around for the best credit deals when you need them.

Financial Planning

From time to time, there'll be periods when your business doesn't generate income.

Where you've planned a much-deserved break or forecast a quiet period, you'll know about these periods in advance. Other circumstances, such as last minute project cancellations or sickness, are harder to predict.

As a freelancer or contractor, you're unlikely to be paid sick pay or holiday pay. To keep your business ticking over during financial downtime, plan ahead.

Take the long view

Allow for your financial needs over the full 52 week cycle of the year, not just the weeks and months when you'll be in work.

Think about how much holiday you plan to take and, based on your general health, make your best estimate of how much work time you'll lose to sickness. Set your rates accordingly and build a cash reserve for when you won't be working.

Allow your clients to arrange cover

If you've committed to a long term contract and you have a holiday planned during its lifecycle, be sure to give your clients the dates beforehand.

Stay compliant

Check your obligations to HMRC or Companies House for any time you won't be working or at your desk. If you miss any payment or return deadlines – even if you're ill – you could be fined.

Prepare for your next project

If you take time off to recharge your batteries following a period of intense work, it's worth spending time beforehand to have your next project lined up. Time off is a good thing – but it can be costly if it lasts too long.

Make it a proper break

Finally, having planned for your break, enjoy it. During research conducted by Boox and ICM, 45% of self-employed workers admitted they worked while on holiday. Others said they stressed about the money they could be earning.

Boox Tip



Always keep funds aside to pay your taxes (VAT, corporation tax and income tax) and National Insurance when they're due. If you spend that money thinking you'll earn it back before the payments are due, then fall ill, HMRC will have little sympathy for you.

Promotion

Few businesses survive, let alone succeed without some form of ongoing promotion or regular marketing campaigns. Promotion takes many forms – from media relations, print materials and direct mail, through live events and outdoor advertising to online marketing and TV advertising.

What will work best for your business will depend on your target audience, what media they use most and what type of messaging they respond most positively to.

Almost every business, however, benefits from a well-designed and managed website, networking, blogging and social media. None of these are necessarily expensive.

Your website

Indispensable in the modern age, your website will be, for many people, their first experience of your business. For others, it will be a verifier – proof that you are who you say you are and you do what you say you do. Either way there are three basic functions your website should perform.

Promote your unique selling proposition

At the very least, your website should set out clearly what products and services you offer. It should also spell out your unique selling proposition – the benefits of doing business with you that are unattainable elsewhere.

Prove it

Use your website to demonstrate your expertise and how it's working for other clients in real life situations. This could be through visual proof of your work or through case studies.

Be easy to contact

Whether you prefer to be contacted by telephone, email or online form, make your calls to action bold, visible and easy to follow.

Networking

Today, networking is more important than canvassing. It puts you at the forefront of the minds of people who will one day need your services – or could influence others to choose them. Here are some tips to get the most from networking opportunities.

Attend relevant networking events

Almost every industry sector and every major city or region has a lively networking community. Organisations such as BNI, Smarta and most chambers of commerce offer good networking opportunities. You can also search for events in your area at www.findnetworkingevents.com.

Use people's names – within reason

If you tend to forget names, this tactic will help. It'll also help build a rapport. Don't do it constantly though – overuse will annoy people and appear false.

Be a good listener

People enjoy nothing more than talking about themselves and what they do. Ask open questions (starting with 'how', 'what', 'why', etc) and be attentive as they discuss their favourite subjects.

Follow up

If you've had a good chat with someone at a networking event, drop them an email to say how much you enjoyed meeting them, ensuring your contact details are included. If you mentioned an article or website during your conversation, send the relevant link or attachment with your email.

Promotion

Blogging and social media

Blogging and networking through social media are great ways to project your personality to a global online audience and differentiate you and your business. And in most cases, it's free.

Blogging

Through a blog, you can share insights, experiences and knowledge that are uniquely yours. By shaping these into 'how to' type articles and content relevant to your target audience's concerns, you'll build a following of regular readers.

As you build trust and authority, the chances are you'll start to see increased business and customer loyalty.

Before you write a blog, consider your readers – what problems are they facing right now? What events are taking place in their industry? What reasons are you giving them to read your article?

When writing, stay conversational. Overtly selling will turn readers away, but the occasional relevant link to your webpages will do you no harm at all. Let readers respond with their comments and always engage with people who join the conversation.

Social media

So many social networks exist nowadays that if you were to commit to them all, you'd probably never do any fee-earning work. For most contractors and small businesses, though, the four key platforms are:

Facebook

Still the biggest of them all. Use Facebook to create company pages, advertise and publish regular updates, press releases and other information about your business

Twitter

Your brand in 140 characters. Be useful, be funny, be unique, but most importantly of all, be you. Use the hashtag facility to home in on buying signals in your industry sector

LinkedIn

Potential clients will almost definitely look you up on LinkedIn, so use your profile to project your personal skills, experience and career highs. You can also connect and network with likeminded people, so this one's a must

Google +

Google treats everything you publish here as if it's on regular web pages. That means it'll be more visible than content on any other social network

Boox Tip



Whenever you write a blog, create a short url (using a provider such as goo.gl) and link to it from your social media updates.

Find us online



Ready to get started?

For a no obligation discussion about our service, or the best route for your freelance career, get in touch using the details below:



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