SUCCESS IN BUSINESS:

a guide to financial management and marketing for small businesses

FOREWORD

This book offers a practical approach to financial management and marketing techniques for small businesses. If you can apply the contents of this book you could be a success in business.

If you are a market trader, own a small shop or supply a service to people in your local area, the following pages will equip you with the basic information that you need to ensure that your finances are in order.

This book also examines the marketing strategies that can help you to develop your business. There are useful insights into how small businesses could benefit from spotting new market opportunities.

As there is a wealth of other information and advice available about financial management and marketing, there is also a list of resources that you might like to explore.

The tools, techniques and examples in this publication, and its companion volume, *Success in Business: Street Market Case Studies*, will help you to develop a thriving business.

Councillor Paul McGlone
Chair of Cross River Partnership Board

KEY

- Key principle
- Be aware
- Exercise
- Case study
- Links or resources
- Next action

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SUCCESS IN BUSINESS: A guide to financial management and marketing for small businesses

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1. FINANCE: THE BASICS

THE BASIC PRINCIPLES OF FINANCE

The basic principles behind financial management are very simple, but jargon often makes the subject appear complex. If you are running a small market stall or a global business, financial management is essentially about controlling your business using numbers.

Why have accounts?

Accounts provide a reliable measure of the performance of your business, which it is important to know.

Who looks at accounts?

Apart from yourself and Companies House, other people who may want to look at your accounts are:

- Directors, shareholders or investors
- Traders, such as your suppliers and customers
- Banks and other lenders
- Government departments, such as the Department of Trade and Industry or HM Revenue & Customs

Measuring and recording

To control your finances, you must measure and record all of your transactions. You need to know what you spend money on, what money you get in, and when all of this happens. Once you have all of this information you can begin to understand the flow of money though your business. A summary of these records is the basis of your accounts.

Legal requirements

There is a statutory duty to maintain accounting records, or 'books', by all traders, including sole traders (also called the self-employed). Sole traders or partnerships need only produce accounts for HM Revenue & Customs. All other entities that are incorporated or regulated, i.e. companies limited by shares, or guarantee, charities and co-operatives, have to file accounts that can be accessed by the public. These accounts must be presented in a recognised format and be a true and fair statement of your business' operations. If your business is incorporated, you must file your accounts with Companies House every year. These accounts must include:

- The trading account – showing profit and loss
- The balance sheet, a list of what you owe (liabilities) and own (assets)
- A cash flow statement
- A director's report, notes, explanation and clarifications on your accounts

You must pay your bills. Even if you do not have enough money in the bank, you must have the justifiable expectation that your business will be able to generate sufficient income to enable bills to be paid as they become due or that you can raise the required amounts.

If you are an incorporated business or a registered charity of a certain size you must have your accounts audited annually by a licensed practitioner, which will provide independent confirmation of your accounts. A company can be exempted if it is 'small', that is it has a turn over of not more than £5.6 million and a balance sheet total of not more than £2.8 million. A charitable organisation will generally be exempted by the Charity Commission if it has a gross income of less than £250,000 in the relevant year, although there are exceptions. Visit www.charity-commission.gov.uk for further details.

ACCOUNTING CONVENTIONS

A well-established accounting method is the 'double entry bookkeeping system.' This is how accounting errors were prevented in the days before computerised systems. Everything is entered twice, once as a source (positive value) and once as a sink (negative value).

Underlying this is the principle that any cash transaction will affect two aspects of a company. For example, you might buy stock which would be recorded as a decrease in the amount of cash you have and also as a corresponding increase in the value of stock you hold by the same amount. If this is correctly done the accounts should balance, if they don't you know there is an error. Reconciling credits and debits on a regular basis is where the phrase 'balancing the books' comes from.

CASH VERSUS PROFIT

Businesses operate on cash – 'cash is KING'. Your profits rely on you collecting the cash – companies and traders fail when they run out of cash to pay bills more than for any other reason.

Unpaid debts affect businesses of all sizes. It is a serious problem, as you could lose your profit margin and your entire turnover. The impact is therefore on both your sales (top line) and profits (bottom line). You need to have measures in place to monitor debts and prevent accumulation of bad debts.

If you do not have sufficient funds to pay for your incurred costs and won't have any in the future, you should cease trading. To continue trading will lead to insolvency or bankruptcy. There are stiff penalties for continuing to trade under false pretences, also called 'trading fraudulently.' These include fines, imprisonment and being banned from future directorships.

The system of entries in books is with: on the left hand side the **debits**, ie money due or received (positive entries); on the right the **credits**, i.e. money paid or owed (negative entries).

A set of business accounts is made up of a variety of elements. Figure 1 shows the relationship between a typical set of business accounts and the flow of transactions between them.

Double-entry system: example of how sales are accounted for

Simple rule: if you increase a **debit** then you must either increase a **credit** or decrease another **debit** by the same amount. Similarly increasing a **credit** either requires an increased **debit** or a reduction to another **credit**. This ensures that all the **debits** in total always equal all the **credits** in total.

Computerised accounting packages copy the manual system of creating accounts. Every transaction is entered twice, a debit entry and a credit entry. This ensures that if an error is made the accounts will not balance, i.e. the debits will not equal the credits. Every time you record a transaction, therefore, you need to make an equal and opposite entry – to 'balance the books'.

Figure 1 **The relationship between a typical set of business accounts**

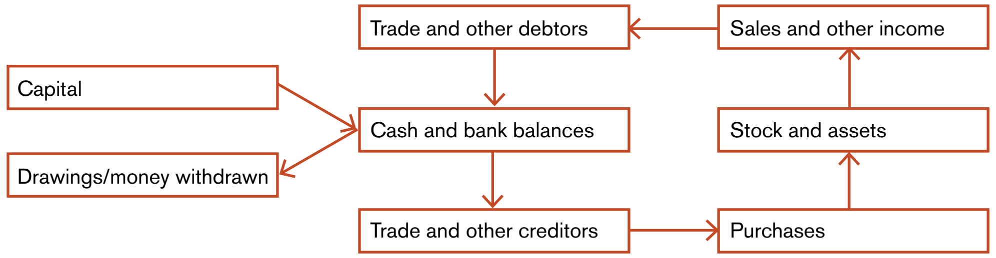


Figure 2 **Name of account: debtor account/trade receivables**

First entry		**Second entry**	
Sales *In Profit and Loss account*	1,000	Cash received *To balance sheet*	500
		Difference *Debtor on balance sheet*	500
	1,000		1,000

FINANCIAL STATEMENTS

Even if you've never put together a set of accounts, there may be some terms to do with accounting that you've heard before. These may include:

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

These various financial statements are all different elements of the complete set of business accounts.

These are all useful tools that can help small businesses keep track of where money is and what it is doing.

The difference between your income and expenditure is called the profit or loss.

The profit and loss account

The profit and loss account shows the income you have earned against the costs incurred over a stated time period, usually a year.

The Companies Act requires that you show your different sources of income and categorise what you spend.

If you are using double entry bookkeeping you can calculate your profit or loss by looking at the difference between your purchase account (costs or expenditure) and your sales account. If you have spent more than you have earned you have made a loss. If you have earned more than you have spent you have made a profit.

An example profit and loss statement

Every debit and every credit will appear in the profit and loss account or the balance sheet (Figure 3).

Note that the profit and loss account takes the same basic form as the accounts we looked at in the double entry bookkeeping section, with debits on the left and credits on the right.

Figure 3 **Profit and Loss Account**

Debit	Credit
Cost of goods sold (all goods for resale minus any stock left at the end of the period)	Sales (invoices raised or cash received)
Expenses (all costs including salaries/wages)	
Profit or loss (always a balancing figure)	

Balance sheet

The balance sheet is a 'snapshot' of the difference between your assets and your liabilities on a particular date, which is usually the end of the financial year.

The difference between the assets and liabilities is either the profit or losses accumulated ever since you started your business. Your assets are all the things you own and the money due to you, whereas your liabilities are what you owe other people.

Your net worth equals your assets minus your liabilities

An example balance sheet

You will notice in Figure 4 that all debits are placed on the left and all credits are placed on the right of the sheet. You must list everything you owe or own on a specific date. This is unlike your profit and loss account, which is a record of money in and out over a period of time.

The profit and loss account versus the balance sheet

The difference between profit and loss account and the balance sheet include:

- Loans and loan repayments are shown on the balance sheet and not the profit and loss account
- VAT is a liability and shown in the balance sheet; whereas all costs in the profit and loss account exclude VAT
- There is a time difference between when a transaction is created and when the transaction is completed, e.g. if you sell some goods in January and issue an invoice to the purchaser the sales invoice is recorded in the profit and loss account as a sale. You will probably receive the cash for the sale about a month later. In the balance sheet a debtor is created, i.e. when you receive an invoice but it is likely that you will not pay the amount immediately. The liability, i.e. what you owe, is shown in the balance sheet as a creditor

Figure 4 **Balance Sheet**

Debit	Credit
Fixed Assets (e.g. lease, property, computers, cars etc.)	Creditors (people you owe money to)
Debtors (people who owe you money)	Loans (banks or other parties that you owe money to)
Stock (goods for resale)	Capital (the money you/investors put in)
Bank (assuming a positive balance)	Retained Profit (the profit made to date)

FINANCIAL PROJECTIONS — FORECASTS AND BUDGETS

For more information on types of assumptions and estimates please go to the companion website to this book: www.redochre.org.uk/crp.php

Forecasts are predictions about the future and are used to plan ahead. Budgets are financial plans for specific time periods, based on forecasts.

Budgets are often done as a **rolling budget**, e.g. predicting the next year by monthly results.

Profit forecast

The profit forecast is simply a profit and loss account looking into the future. This is a forecast based on what you expect sales and expenses to be in the future, e.g. in one to five years.

Cash-flow forecast

This reflects the actual cash movements expected over your time period. This is normally one to five years.

The statement will show:

- Actual cash movement, e.g. a sale in January may only generate cash for the business in February or March
- Loans
- Capital purchases
- VAT
- Balance sheet

The principal difference between the profit forecast and the cash-flow statement is timing of transactions. The timing difference will make up the balance sheet.

To download templates for cash-flow statements, balance sheets and profit and loss accounts visit www.redochre.org.uk/crp.php.

Figure 5 **Differences between the profit forecast and cash-flow statement**

Profit Forecast	Cash-flow Statement
Sell in month 1	Receive the cash in month 2
Purchase in month 1	Pay for it in month 2
Depreciate it over 3 years	Buy a computer
No impact	Loan and loan repayments
PAYE and NIC month 1	Pay IR in month 2
No impact	VAT and payments/receipts from HM Revenue & Customs
Utilities in month 1	Pay at end of quarter i.e. month 4
Insurance in month 1 (1/12th of total charge)	Full amount paid in month 1
Audit fee in month 1 (1/12th of total charge)	Full amount paid sometime in the following year

VARIANCE

Variances are useful management tools as they highlight areas where assumptions are incorrect and areas where there is potential for improvement i.e. in understanding what led to the variance you can adjust the future budget if required for the cause of the variance or you can rectify the cause so that it does not occur again.

The difference between budgets and historical information for the same period is called a variance.

An example of variance is shown in figure 6:

Figure 6 **Per the budget**

Expected sales in the month	£10,000
Actual sales achieved	£9,500
Variance	£500 / 5% negative

If the variance exceeded 10% you would want to find out the cause, explain it and if necessary adjust the assumptions for future months or rectify the cause.

This is a small variance and probably will not require further investigation.

Figure 7 **Table: Types of cost**

Variable costs (also called cost of delivery, or direct costs)	This is how much it costs to make, purchase or deliver your product/service. These are costs you incur only when you are trading, e.g. petrol for a delivery or casual labour costs.
Fixed costs (also called overheads or core costs)	Also called overheads or core costs. These are the bills you must pay all the time. Rent and rates are fixed costs.
Capital expenditure (sometimes shortened to CapEx)	These are bills you pay once, e.g. buying a computer, a van or a market stall.
Contribution (also called Gross Profit)	This is what you have left from the sale price of an item once you have paid for it. Instead of being quoted as a number (gross profit) you can also represent this as a percentage (gross profit margin).

FIXED AND VARIABLE COSTS

Fixed costs are bills that you have to pay whether you sell anything or not. For example, if you are operating a shop or a café you will need to pay rent, rates, utilities, and wages even if you do not sell goods, have no customers, or casual staff.

Variable costs are those that are incurred due to some level of activity, and vary directly with changes in this activity. For example, when a customer makes a purchase, the variable cost is the price you pay for the item that you have sold to the customer.

GROSS PROFIT

The gross profit on any item sold is the difference between paying for the item and how much you sell it for. For example:

Bag of beans cost	£5
Sale price	£10
Gross margin	£5

The gross margin goes to paying off your fixed costs (i.e. bills you always pay).

BREAK-EVEN POINT

Break-even point is when the fixed costs will have been covered after a certain number of items have been sold. If you sell more items all of the gross profit is your 'net profit' as you are no longer paying off your fixed costs.

Next Actions

You know the basics of financial management, but what can you do now? Visit the companion website to this book and download a range of tools, exercises and templates on financial management at www.redochre.og.uk/crp.php. These include:

- A simple cash book
- Break even analysis explanation and tool
- Example purchase and sales ledgers
- Template cash flow projection

2. MARKETING

Measures of competition are relative. To be a leader in a field your business does not have to sell a perfect product or service, you only have to sell a better service or product than your competitors.

Two key marketing strategies you might find useful to increase sales are by increasing competitiveness and diversification.

1. Competitiveness is how you compare against other people or companies selling similar goods or services to your own.

2. Diversification aims to extend your organisation's activities into new products or markets.

COMPETITIVENESS

An organisation is competitive when it is able to provide products and services as, or more effectively and efficiently than its competitors.

Businesses can usually achieve competitiveness in two ways:

1. Low-cost leadership

This requires reducing costs and becoming more efficient throughout the company. An example is Asda, which is a high volume, low cost supermarket.

2. Differentiation

This requires setting your goods and services apart from competition through better features or quality, including everything that can influence customers' purchasing decisions: e.g. design, customer service, brand image, durability, feel good factor etc. For example, Louis Vuitton sells desirable, high-quality, very expensive luxury goods; the Body Shop sells ethical 'feel good' products.

Where you are now, where you want to be and how to get there

Gap analysis is a useful tool that can help you think about your current position and where you want to develop your business to. It can help you decide upon marketing strategies and tactics to enable your business to grow.

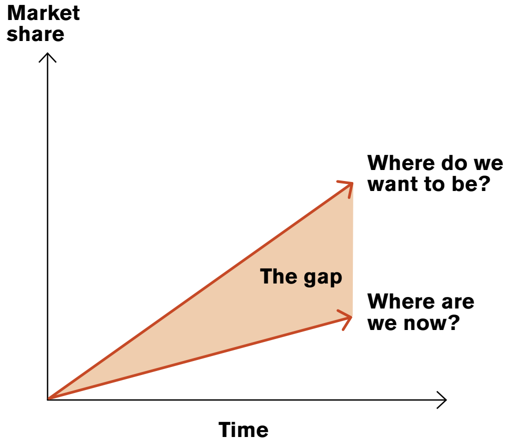
Firstly, decide your focus, e.g. you could choose to examine your market share, profit or sales. Next, ask two questions:

1. Where are we now?
2. And where do we want to be?

The difference between the two is the **GAP**, as shown in Figure 7, the lower line is where you are now; the upper line is where you want to be.
You need to to work out what you want to achieve:

- An increase in market share, sales or profitability? If so, by how much?
- What targets do you have in mind?
- Do you have a competitive advantage such as lower costs or a specific product perceived as being different or offering better value than others?

Figure 8 **Gap analysis**



It is best practice to change one element at a time to allow you to measure and evaluate any changes in sales as they happen. If multiple elements are changed at the same time you may find it difficult to measure the impact each change had on your sales.

Thinking about the gap

You can close the gap by thinking about how you market and sell your goods, products or services on a day-to-day basis. You could change things by altering your pricing, changing the ways you promote your product or service. This kind of marketing is called using the Marketing Mix (see Glossary, page 28).

The aspects you might want to change include:

- **Pricing**
- **Distribution:** are you going to make changes in your supply chain or how you transport or deliver your goods/services?
- **Product:** specification and physical differentiation of a product or service
- **Promotion:** Communications planning, choosing what marketing communication activities to undertake. Who will you market yourself to and how?
- **Physical evidence:** signage, labeling, packaging
- **People:** skills, attitude and appearance of staff including partnerships and alliances. Can you lower your costs or improve results by associating yourself with another company?

Historical competitive advantage may not sustain itself. This is why you need to have a very good understanding of your customers and your market.

Technique: Customer analysis

If customers buy products from your market stall or shop it is because you are offering a product or service that meets their needs.

Some questions you might want to ask are:

- Who are your current customers?
- Who are your potential customers?
- What are they looking for?
  - – low cost
  - – physical quality
  - – service
  - – timeliness
  - – a mix of these
- What do they think of you?
- How can you reach them?
- What needs are you meeting?
- How well are you meeting those needs?
- What other potential needs could you meet?
- Are there trends in demand?

Once you have some of these answers you will have started to develop an understanding of your customers, their motivations and their behaviours – more specifically their buying behaviours as they relate to your business.

Technique: Competitor research

We know competitiveness is a relative measure against other providers of goods and services.

You can add to your knowledge by using the internet for research, gaining contacts and information sources at local and professional membership bodies, and by asking your customers and suppliers who they buy from.

The kinds of questions you might want to find answers to include:

- Who are your competitors?
- How well are they doing?
- Are they growing or planning to grow?
- Where do they operate?
- How much do they charge?
- Who are their suppliers?
- Are there potential new entrants in the market or similar products or services that can compete against you?
- How do you compare to them?
- How can you develop/maintain a competitive advantage?

While you may be aware of existing competition, and even well positioned against them, remain wary of new entrants to your market. For example: Large and established airlines were badly shaken and lost considerable market share to emerging budget airlines such as easyJet and Ryanair.

You cannot remain competitive without knowing who you are competing against.

COSTING AND PRICING

There are some simple tasks to go through to help you decide on the price that you charge for your products or services:

- Capture all the relevant data, such as supply chain prices (suppliers, distributors, transporters, storage), competitor's prices, how much customers are willing to pay.
- Measure and monitor: how does a change in costing affect your prices, sales, revenue and competitiveness?
- What kinds of adjustments are needed to achieve your targets? Do you need to lower certain costs? Can you make economies of scale?

There are many ways to work out how much to charge for your product or service. Their appropriateness depends on your aims and objectives:

Example Pricing Strategies

- **Cost plus pricing**
  How much the product or service that you sell costs you plus your margin (this will ensure a pre-determined percentage of profit on each transaction)

- **Premium pricing**
  A high price, but a high quality product or service is provided in exchange, for example Concorde

- **Penetration pricing**
  Offer a low price to gain market share, then increase price, e.g. sell apples very cheaply until no one else sells apples in the area and then put your prices up

- **Psychological pricing**
  To get a customer to respond on an emotional, rather than rational basis, for example 99p not £1.01. This is called 'price point perspective'

- **Product-bundle pricing**
  Sellers combine several products at the same price, e.g. a book is sold with a CD on its cover

- **Promotional pricing**
  Buy one get one free, e.g. supermarket offers on toothpaste, soups, etc

- **Value pricing**
  Usually used during difficult economic conditions, e.g. value menus at McDonalds

- **Discounting**
  A discount promotion can increase business. Beware though, raising the price to its original level can prove unpopular and will encounter resistance. Engage in a strategy that informs the customer that any promotion/discount is a time-limited offer

- **Incentives**
  Encourage customers to return to you. This ensures return business and is more profitable in the long term than offering a straight 10% discount, for example:
  – cash back incentives
  – make 10 purchases get one free
  – ensure the offer is only on a selected item. Customers are likely to also purchase food or other items so that you more than recoup the cost of the free offer; for example, coffee in a café
  – give a discount on each transaction over a certain value; for example, spend over £15.00 on ten occasions and get a free sandwich on the 11th. Once again the extra sale more than makes up the cost of the 'freebie'

To be a sustainable organisation you must charge enough money to cover your costs and generate a surplus (profit) to contribute to your financial and personal aims.

For further information and examples of perceived value and differentiation, and selling benefits visit www.redochre.org.uk/crp.php.

In order to sell more effectively to your customers you should be aware of what the quality is that they see in your offering. The easiest way to find this out is to ask them.

Quality

Quality, or perceived value, is what the customer gets out of a purchase whatever way they measure that themselves.

Typical measures of value to a customer include:

- Physical quality or workmanship of an object
- Scarcity or perceived rarity of an object or service
- Time saved
- Customer service
- Resilience of a product or service
- Feel good factor

Your customers' perception of value for money is key to effective competition and is the difference between what a customer pays and what they believe (perceive) is the value of the goods/service.

Figure 9 **Value for money**

Value for money

As shown in Figure 8 above, the greater the 'value for money' you offer, the greater the likelihood that your customers will buy from you and not your competitors.

DIVERSIFICATION

Looking at moving into new products or selling to different types of people, or both. Whatever type of business you run, you can diversify in three ways:

1. **Market development** – finding a new market for your existing products. This involves seeking new groups of customers by moving or expanding to new locations (opening another market stall in a different place) or reaching different market segments (selling to a different type of customer).
2. **Product development** – bringing in or developing new or different products for your current customers.
3. **Market and product development** – selling new products to a new market. This strategy has aspects of both and is the most risky form of diversification.

Market penetration strategy is selling more of your current products to existing customers.

Focus strategy or **specialisation** is the opposite direction of diversification. This is when businesses compete by concentrating on a particular position in the market, such as supplying speciality products, selling in a location neglected or targeting niches with specific demands (e.g. a food store that specialises in vegetarian/vegan food, or sells gramophone needles).

Uses of diversification in the real world

When would a business wish to diversify? What does this mean in practice? Some of the most common reasons to use this strategy is to *manage business risk*.

- If your market stall has experienced a drop in your usual customers then you might want to consider providing new cash flows into the business through diversification

- If your small shop serves a limited range of products, relies on a small group of customers or is just based in one geographic area then you might want to reduce this overdependence by diversifying

- The other main reason to use diversification is if you adopt an expansionist strategy. This is a way to move into areas where there is an opportunity to sell goods and/or services you currently don't sell

Below are some examples of product diversification tailored to particular market sectors:

MARKET DEVELOPMENT: CORNISH SARDINES

In the late 1990s and into the 21st century the UK market for locally caught pilchards was static. Pilchards were 're-branded' as Cornish sardines to increase sales of fish caught off the west coast of Britain.

This marketing strategy opened up Spanish and Portuguese markets as consumers there have cooked with sardines for generations, but were unaware of pilchards (which are in fact only large sardines).

This is an example of market diversification as the same products were being sold to a different group of customers.

MARKET AND PRODUCT DEVELOPMENT: CHUPA CHUPS

The company started as a confectionary store, but soon revolutionised sweet eating habits by creating and selling the lollipop, a candy that can be eaten on a stick in a variety of flavours.

Chupa Chups learnt that merchandising and distribution were key in attracting customers. They multiplied points of sale where they presented the lollipops in a very colourful, attractive and innovative display. This was very appealing to children, who were by far their largest market at the time.

Later on, the company anticipated market changes by:

- Targeting places where young adults spent time and there was no competition, e.g. clubs and arcades, creating a 'lollipop fashion' (market development)
- Introducing Cremosa, sugar-free lollipops, which appealed to more health conscious consumers (product development)
- Creating Smints, the first dental candy, which appealed to a much wider public, especially adults (product and market development)

Chupa Chups also created its own distribution company to ensure timely delivery of their products to thousands of outlets. By branding the delivery vehicles with their logo and colours they benefited from a free and highly visible outdoor media campaign.

This Spanish lollypop maker is a great example of the use of diversification in business growth.

Visit www.chupachupsgroup.com/ for more information.

DIVERSIFICATION AND PRODUCT DEVELOPMENT: VIRGIN

Virgin started selling records by mail order, and then moved into retail (Virgin shops).

Over time the organisation diversified into selling other media, including creating its own music (Virgin MegaStores, Virgin Music and Virgin Radio). Once Virgin had sufficient brand awareness the company expanded into:

- Transport (Virgin Trains, Virgin Atlantic)
- Communications (Virgin Mobile)
- Financial services (Virgin Money)
- Stem Cell Services (Virgin Stem Cell)

Virgin continues to expand through franchising, i.e. selling the licence to use the Virgin brand for use in marketing other products.

Virgin is an excellent example of diversification and product development.

Visit www.virgin.com/uk/default.asp for more information.

Exercise: how and when to diversify

Diversification is not always the best strategy to adopt: sometimes it is better to concentrate on your current products and customers. There are many market traders, small shop owners and suppliers of services that have focused on their core business and been successful.

If you are looking for a way to grow your business or if you have identified a specific opportunity it may be worth pursuing a new product or market.

Questions to ask yourself

- Have you done your market research?
  - have you found new products to sell or new customer needs?
  - can you think of new clients to sell your current products to?
  - is there a demand for the new product you want to sell?
- How will you reach this new market?
- What is the competition like?
- What are the risks involved?
- Is it a known or unknown market?
  - do you have or lack expertise selling the new product, goods or services?
  - is there a high cost of setting up in the new market?
  - does this new product/market fit with your company?
- Do you have sufficient capacity for existing and proposed products and services?
- Will the quality or customer service you provide suffer as you expand?
- Can you have a trial period or do some test trading?
- Perhaps selling a similar product to familiar markets will be less risky (e.g. sugar free lollipops to lollipop consumers)

Next Actions

What marketing can you do now? Visit www.redochre.og.uk/crp.php to download a range of tools and exercises including:

- Marketing plan template
- Product/Market diversification tool
- Tools to work on where you are and where you want to be
- Finding out whether you offer value, and action plans based on cost or differentiation
- Tools to help you find out how competitive you are

3. MAXIMISING LOCAL OPPORTUNITIES

Business or social networking involves establishing and maintaining a mutually beneficial relationship with other business people and potential clients.

Making the most of opportunities in your area comes from knowing what is happening (or what is likely to happen) and how you can get involved. The best ways to learn about local opportunities are through networking and research. One of the most effective ways to get involved and exert influence is by using your network.

NETWORKING

Having a network will also help you to become involved in, and perhaps exert influence over, potential local developments.

Some networking opportunities occur during day-to-day activities, while others require planned action. A structured approach to networking and reaching out to new contacts will help you to build a strong network of allies, potential customers or business partners that will help you to take advantage of local opportunities.

Networking is one of the most cost effective ways to find out what is happening in your local neighbourhood. There are a number of methods to encourage this to occur. A few simple guiding principles are:

- Be visible
- Get involved
- Be informal if necessary

Tried and tested methods of networking

To make the most of your time and effort you should use all of these techniques as part of a strategy to build your network of contacts.

- Make the most of impromptu meetings, e.g. with an acquaintance on your way to work, catching up with current partners or contacts over lunch, having a conversation with neighbouring businesses/suppliers/distributors/competitors.
- Take part in local meetings or events to discuss upcoming projects, events, or changes in your sector/area. You can even organise one yourself and be at the centre of the networking if you see a need or opportunity.
- Discuss potential opportunities to collaborate with other people who run similar businesses to take advantage of an opportunity (e.g. distributing each other's leaflets, putting up posters, offering discounts in association with others, organising a special event with other traders).

You could consider joining:

- Trade associations
- Local business associations
- Local community organisations to exchange ideas and stay up-to date with developments and news
- Political parties

Talking to other people can enable you to know what is happening

For further details see the Local Contacts List (page 23) or visit www.redochre.org.uk/crp.php.

RESEARCH

Research is a great tool to find out what is happening, who is involved in your area, and what might be happening that could affect you and your business. It can complement information you have heard from other people as well as inform you of brand new opportunities.

Desk research

Desk research is a highly efficient use of time and resources when it comes to maximum information collected for minimal outlay of time or money. This type of research can be done during lunch hours, after work, at weekends or during the working day.

- Visit your local authority website regularly at www.direct.gov.uk. There will be lists of forthcoming business networking opportunities in your area and how to get involved. Local authorities also provide practical information on planning applications, business improvements, regeneration programmes or events that could be of benefit to you or affect your business (e.g. a new transport link could bring new customers to your market). Councils also provide very useful links and information for business owners and employers (e.g. awards and grants, business support/advice, free training).

- Read your local newspapers, trade magazines or bulletins.
- Visit the National Statistics website at www.statistics.gov.uk to find out about trends or demographic changes.

Example: You might wish to keep up-to-date with statistics on where new immigrant groups are settling. In Shepherd's Bush there are now signs for Polish food written in Polish. As countries join the European Union this information may give you an advantage over your competitors that aren't aware of how your customer base and their needs might change.

Subscribing to relevant newsletters can inform you about new local opportunities in your area.

LOCAL CONTACTS

You can access useful information and support from:

BUSINESS ASSOCIATIONS AND AGENCIES

Local council websites
Website with central and local government information and services
www.direct.gov.uk

Enterprise Agencies
Support for start-ups, micro businesses and the self employed from Enterprise Agencies across the country
www.nfea.com
t 01234 831 623

Chamber of Commerce
Links to local Chamber of Commerce, which provides networking events, business training and information resources
www.chamberonline.co.uk
t 020 7654 5800

Institute of Directors
The UK organisation representing individual company directors
www.iod.com

TRADE ASSOCIATIONS AND BUSINESS DIRECTORIES

Trade Associations Forum
Information on trade associations
www.taforum.org
t 020 7395 8283

Yellow Pages
Business directory
www.yelldirect.com

Thompson Directory
Business directory
www.thomweb.co.uk

Search Engines
Search engines, portals and internet listings
www.google.co.uk
www.yahoo.co.uk
www.lycos.co.uk

BUSINESS INFORMATION AND SUPPORT

Exhibitions
Attend trade shows and UK consumer, public, industrial and trade exhibitions
www.exhibitions.co.uk

Business Link
Government support, advice and information for businesses in England. Most of the business services are provided free of charge
t 0845 600 9006

Companies House
Information and guidance on forming a limited company or limited liability partnership
www.companieshouse.gov.uk
t 0870 333 3636

Cross River Partnership
Agency managing business support and other regeneration programmes in central London
www.crossriverpartnership.org
t 020 7926 1132

Greater London Enterprise
Website containing information about Greater London Enterprise, London's economic development company
www.gle.co.uk

Helpline for the Newly Self-Employed
For the self-employed to register for National Insurance, tax and VAT. Arranges advice or support through seminars or visits
t 0845 915 4515

Her Majesty's Revenue and Customs
For information and financial advice on personal (self-assessment) tax, corporation tax, VAT, benefits, tax credits, National Insurance, PAYE, importing and exporting
www.hmrc.gov.uk

Guidance and information on VAT
t 0845 010 9000

New Employer Helpline
Guidance on paying employee tax and National Insurance
t 0845 607 0143

Startups.co.uk
General information on starting up in business
www.startups.co.uk

Tax and Benefits Confidential
Advice line that offers people operating in the 'hidden' economy confidential help and information to help them put their affairs in order
t 0845 608 6000

Patent Office
Information about trademarks, copyright, designs and patents and how to register and protect them, and check you're not infringing anyone else's intellectual property rights
www.patent.gov.uk
t 0845 950 0505

Intellectual Property
Information on UK intellectual property and how to protect it
www.intellectual-property.gov.uk

Data Depot
Demographic and market information for any geographical area in the UK
t 0800 181 851
www.datadepot.co.uk

Kelly Search
Information on worldwide products, services and company names
www.kellysearch.com

Kompass
Information on worldwide products, services, company names and trade marks
www.kompass.com

National Business Register
To check availability of business names
www.anewbusiness.co.uk

Office for National Statistics
Statistics on the UK economy, population and society at national and local level
www.statistics.gov.uk

UpMyStreet
Demographic and market information in most areas of the UK by postcode
www.upmystreet.co.uk

Health and Safety Executive
Advice and free literature on all matters relating to health and safety
www.hse.gov.uk
t 08701 545 500

Safestartup.org
Information on how to comply with health, safety and environmental regulations for small businesses, micro-enterprises and start-up companies
www.safestartup.org

Department of Trade and Industry
Information on employment rules and regulations
www.dti.gov.uk
t 0870 150 2500

Acas
For enquiries and information on employment issues
www.acas.org.uk
t 08457 474 747

Trading Standards Institute
Guidance on trading standards
www.tradingstandards.gov.uk
t 0870 872 9008

SKILLS AND TRAINING

Learn Direct
E-learning for basic, ICT and business skills
www.learndirect.co.uk

Training Pages
Directory of training providers
www.trainingpages.net

MARKET RESEARCH AND ADVERTISING

Advertising Association
Trade association providing information, research and statistics about advertising
www.adassoc.org.uk
t 020 7828 2771

Demographics and Statistics
Neighbourhood Statistics
www.neighbourhood.statistics.gov.uk
t 0845 601 3034

LEGAL HELP

Community Legal Service
Advice, information and helpline to assist people with their legal problems
www.clsdirect.org.uk
t 0845 345 4345

Law on the Web
Short guide on legal issues
www.lawontheweb.co.uk

Lawyers for Your Business
Free 30-minute consultation provided by a network of solicitors in England and Wales
www.lawsoc.org.uk
t 020 7405 9075

BANKS AND FINANCE

Abbey Business
Offers free banking for the first 18 months and general finance and business advice
www.abbey.com
t 0845 765 4321

Bank of Scotland
Offers a range of business banking products, services and free information
www.bankofscotlandbusiness.co.uk
t 0845 606 0286

Barclays
Offers support for start-up businesses, including internet banking, seminars and fact sheets
www.barclays.co.uk
t 0845 755 5555

Better Payment Practice Group
Advice on getting paid on time and avoiding bad debt
www.payontime.co.uk

The Co-operative Bank
Offers a range of products and services for businesses of all sizes and at all stages
www.co-operativebank.co.uk
t 0845 721 2212

HSBC
Runs a business banking programme providing low interest rates, free internet banking for the first 18 months and business plan software
www.hsbc.co.uk
t 0845 740 4404

Lloyds TSB
Business banking programme, 'success4business', offers support for raising finance, marketing and successfully managing a business
www.lloydstsb.co.uk
t 0870 900 2069

NatWest
Offers free business advice and a direct telephone line to the business manager. The website also features five business guides on marketing, finance, e-business, basic management and starting up
www.natwest.com
t 0870 240 1144

National Business Angels Network
Directory of small scale equity investors
www.bestmatch.co.uk
t 020 7329 2929

The Royal Bank of Scotland
Offers free advice for small businesses, the website features a small business clinic
www.rbs.co.uk
t 0845 722 2345

Small Firms Loan Guarantee
Businesses that can't get a loan due to a lack of tangible security can often apply for a bank loan between 2 and 10 years for £5,000 to £100,000 where the government's SFLG scheme guarantees 75% of the loan
www.dti.gov.uk/sflg
t 0870 150 2500

PRIMARY RESEARCH

Primary research is research undertaken by you directly or commissioned by you.

Simple methods of primary research include:

- **Surveys** – ask relevant questions verbally to people around you about forthcoming local opportunities, e.g. will you attend the fair next week or would you buy organic food if there was some in the store?
- **Structured interviews** – these can be very short and can be undertaken in person (e.g. while serving customers, or meeting potential clients) and on the telephone

PROMOTE YOUR PRODUCT / SERVICE AND RAISE AWARENESS

If you decide to act on a local opportunity because you think your business, customers or neighbourhood will benefit from it, make sure you plan your course of action.

- **Plan first** – list your aims and objectives, strategy and tactics, budget and resources, targets as well as potential risks
- **Create awareness** – promote your idea and stimulate interest and desire
  - consider promoting your product or service through direct marketing (mail, inserts, leaflet drops, point of sale activity, etc), newsletters, events, public and press relations, conferences, seminars, websites, electronic-direct marketing, newsgroups, etc.
  - publicise your product or service in the local newspaper
  - consider contributing to local newspapers or bulletins, thus raising your profile
- Get as many people who may help/benefit from your activity involved, as champions
- Monitor and evaluate your success: was it worth taking on the opportunity?

Share this information with people who have helped you along the way – this will also give you a chance to follow up on your networking. Another opportunity may come along!

Example of a local opportunity

You are a small catering company with a shop for customers who live and/or work in the neighbourhood. The only other sandwich shop is three streets away. You learn from the local newspaper that a group of businesses with a total of 70 employees is about to move into the newly renovated building on the corner of your street.

How to you take advantage of this opportunity?

- Be reactive – wait to see what happens. They may not buy from you or you could quickly become overcrowded at lunchtime
- Contact the Building Manager and arrange to distribute leaflets to promote your shop, and organise to deliver sandwiches directly to the offices
- Prepare yourself for an increase in customers by ordering more supplies and hiring extra staff

Tools: Spotting Opportunities

Normally a SWOT analysis will identify 10-15 strengths and weaknesses and 5-10 opportunities and threats. SWOT analyses are most effective if completed as a group exercise with input from many people – so involve your employees or colleagues. Brainstorming (see Glossary, page 28) is often used to get as many items for the SWOT as possible.

Strengths and weaknesses focus on internal issues; whilst opportunities and threats highlight external issues. For the purposes of maximising local opportunities, concentrate on opportunities and threats in your use of the SWOT analysis.

Strengths and opportunities are positive; whereas weaknesses and threats are negative. A SWOT analysis will highlight negative issues that can be used and developed to your advantage, i.e. to be moved from the negative column to the positive column of the SWOT chart.

Figure 10 **SWOT analysis**

Internal	**Positive** **Strengths** Issues within your control which help your business achieve its goals	**Negative** **Weaknesses** Issues outside of your control which hinder the business and prevent it from achieving its goals
External	**Opportunities** Issues within your control which might offer the business a way to achieve its goals	**Threats** Issues outside of your control which might hinder the business and prevent it from achieving its goals

A SWOT analysis can be used with another tool called PESTLE (Political Economic Social Technical Legal and Environmental) analysis. This is a way to look at external factors affecting your business (the opportunities and threats of the SWOT analysis).

Plan, plan, plan; test, test, test

SWOT (Strengths Weaknesses Opportunities Threats) analysis is an 'environmental analysis' tool. It will allow you to get a snapshot of the situation your company is in, enabling you to highlight areas of strengths, weaknesses, and exploring and recognising opportunities and threats.

For further information on both SWOT and PESTLE tools and to download templates visit www.redochre.org.uk/crp.php

PRACTICE RESEARCH AND NETWORKING

We can now put the information we have, and the tools we've learnt about, into practice.

Within the next week:

- Carry out a SWOT analysis on your enterprise paying particular attention to the opportunities and threats.
- Use the internet to research two possible local developments that might have either a positive or negative effect on your business.

Within the next month:

- Make contact with your local councillor
- Make contact with two officers from your local authority such as members of the trading standards or planning departments
- Develop strategies to keep in contact with these contacts via emails, invitations to meet for coffee, attendance a t formal meetings etc.

Next Actions

What now? Visit www.redochre.org.uk/crp.php to download blank templates such as SWOT analysis, up to date links of local authority contacts and other information.

GLOSSARY

Amortisation
Similar to the process of depreciation but to decrease the value of an intangible asset, such as a lease, rather than a tangible asset such as a delivery van, over time.

Balance Sheet
The balance sheet is a statement of an organisation's net worth. The net worth is the difference between what you own (Assets) and what you owe someone else (Liabilities).
NET WORTH = ASSETS – LIABILITIES

Brainstorming
A creative thinking technique for groups. All ideas are welcome and recorded, repetition and restating encouraged. There is no evaluation or criticism of any idea in brainstorming.

Brand Awareness
The degree to which consumers recognise a company's product or service. Brand awareness is an important way of promoting commodity related products.

Capital
Cash or assets introduced into a business, (by the owners whether they are sole traders, partners or investors) plus the accumulated profit less any drawings made (payments to owners either as drawings or dividends).

Creditors
People to whom you owe money.

Debtors
People who owe you money.

Depreciation
The decline in value of an asset over time. Assets are usually 'written-off' over an agreed number of years, such as 1 to 3 years for computers, 5 years for general office furniture or 50 years for buildings. For instance, a delivery van is recorded in your profit and loss statement for each accounting period and the value of the van is decreased in your balance sheet by the same amount to reflect that if you were to sell the asset it would be worth less than you bought it because of wear and tear.

Exposure
Involvement in a particular sector or type of business.

Franchise
An authorisation granted to a person or organisation to sell or distribute a company's goods or services in a certain area.

GASP
Generally **A**ccepted **B**usiness **P**rinciple. A way of doing things that almost all business people agree on.

Market Sector (also called Market Segment)
A way to describe groups of business, customers and their interactions. These businesses sell goods and services to customers.

Marketing Mix
Also known as the Four, Five or Seven P's
- **Price** – ways to price a product or service
- **Place** – distribution, channel, or intermediary
- **Promotion** – all of the methods for 'marketing communication'
- **Product** – specification and differentiation of a product or service
- **People** – skills, attitude and appearance of staff
- **Process** – integration of marketing activity to achieve an aim
- **Physical evidence** – material part of your product or service e.g. packaging, uniforms

Network (social)
A social structure made up from the relationships between individuals and organisations. The word social does not relate to socialising, but to society. This does not include computer networking.

Networking
The activities involved in creating, maintaining and developing a social network.

PESTLE analysis
A business planning 'tool' or technique. The letters stand for:
- **P**olitical
- **E**conomic
- **S**ocial
- **T**echnological
- **L**egal
- **E**nvironmental

Product Line Extension
A new product or service marketed under an existing brand.

Revenue stream
Money coming in from a business activity.

Risk
A discrete occurrence that can cause the partial or total failure of a project or organisation.

SMART
- **S**pecific – Objectives should specify what they want to achieve.
- **M**easurable – Can you measure whether you are meeting the objectives?
- **A**chievable – Are the objectives attainable?
- **R**ealistic – Can you achieve the objectives with the resources you have?
- **T**ime-limited – Set a timescale and measure progress against this

STEEPLED analysis
A business planning 'tool' or technique. This is an extension of the PESTLE tool. The letters stand for:
- **S**ocial
- **T**echnological
- **E**nvironmental
- **E**thics
- **P**olitical
- **L**egal
- **E**conomic
- **D**emographic

SWOT analysis
A classic business planning 'tool'. Using this technique balances your attention between internal (Strengths and Weaknesses) and external (Opportunities and Threats) issues. The letters stand for:
- **S**trengths
- **W**eaknesses
- **O**pportunities
- **T**hreats

Trade association
An organisation of people and businesses associated with a specific industry.

Value
What the customer gets out of a purchase *whatever way* they measure that themselves. This can include physical quality or workmanship, good customer service or any other criteria of meaning to your customer.

Value for Money
The difference between what a customer pays and what they believe (perceive) is the value of the goods or service.

Working Capital
The money flowing round the system represented by stock, trade debtors, (i.e. people who owe the business money for goods or services purchased). It is the money needed for day-to-day operations.

CROSS RIVER
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