

Starting your own business

This article was published in [.Net magazine](#) before Christmas last year. I was asked to write a small article on making the leap to working for yourself (as it was still fresh in my mind). It's by no means a definitive guide (for example, there is no mention of the legal aspects of setting up and running a company). It's also aimed at a UK market, but a lot of this will work no-matter what country you're in. Most of it is actually just common sense.

It's been eighteen months since I went freelance, and almost six months since starting my [small design studio](#). I'm no expert. So, this article documents what I did, and when. It also features a little interview with our very own [Colly](#).

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So you want to work for yourself? And why not. You can dictate your own hours, have the freedom to take time off when you want it without getting into trouble from the boss; you can do what you want to do, when you want to do it. At least, that's what I thought when I started working for myself a year ago. I couldn't have been more wrong.

The freedom of being in control is terrifying. The pressure of knowing it really is down to you whether you succeed or fail can weight heavy.

Where I live, in Wales, almost 400 people a week start their own business. Everybody is different and end up giving it a go for a variety of reasons. However, most of these people share common ground. Things that they need to think about when planning to go it alone.

As I said, I've only been my own boss for a year now, so I wouldn't call myself an expert on this. I can however tell you my story, and the mistakes I made along the way.

Why do it in the first place?

Starting a business is one of the most challenging, but rewarding, things you can do. The reason most people never end up doing it—although I'm sure many would love to—is because they think it takes luck, a clever idea or just knowing the right people. That's not true. It's about you.

Maybe you have a great idea that you just can't keep a secret anymore. Maybe a colleague has approached you to setup business with them on the back of a contract they've just secured. Maybe you just hate your job and wish you were your own boss. The catalyst is different for everyone.

For many people, including myself, they've found their career take a certain path where self-employment is the next natural progression. I was working full-time at the BBC as a designer when my enquiries to do freelance work reached such a peak that I was doing two jobs. At that point, one of them had to go before my wife did!

Whatever the reason to set up business, it's a personal one that only you can make.

Do you need a business plan?

A Business Plan is just that; a plan about your business. It's used to look ahead, allocate resources, focus on key points, and prepare for problems and opportunities. It doesn't need to be a scary document that you take months to write. However, some banks, investors, or other funding bodies will insist on a well-written, concise Business Plan on which to base their decisions, so in that sense, it's a very important document.

A standard business plan will contain the following:

1. **Executive Summary:** Write this last. It's the summary of the document.
2. **Company Description:** This details how and when the company was formed.
3. **Product or Service:** Describe what you're selling.
4. **Market Analysis:** You need to know your market. Establish the need for your product and why people need it.
5. **Strategy and Implementation:** Be specific. Investors love this stuff. They need to know you have a clear plan of attack.
6. **Management Team:** Include backgrounds of key members of the team.
7. **Financial Plan:** Include a profit and loss account, cash flow breakdown and a balance sheet.

Make no mistake, writing a business plan can be a daunting prospect, but it doesn't have to be great the first time around. A business plan should be revised throughout the business' lifetime - it's not just for startup businesses. I've just gone through my third draft in my first year of business.

As usual, the web has some great resources to offer. The BBC has a good overview of 'How to Write a Business Plan' (<http://news.bbc.co.uk/1/hi/business/2943252.stm>).

Get help

This is perhaps the most important step in setting up your own business. You will realise you can't do it on your own. You will need good advice from the following people:

1. **An accountant:** Preferably a small business specialist.
2. **A bank manager:** All new businesses should be allocated a small business specialist from their chosen bank.
3. **A financial advisor:** You will need the advice of somebody who can assist in the financial direction of the company.
4. **The Government:** Yes, the government can help.

Out of all of these, I'd advise you spend the most time trying to find a really, really good accountant. Many businesses owners will tell you that a good one is worth their weight in gold. In addition to the usual accounts stuff they can give you invaluable advice.

A great source of business advice for England and Wales is the Business Link website. (<http://www.businesslink.gov.uk>) Here, you can find information on starting up and funding options, to Health and Safety and employing people.

The different kinds of 'company'

To register as self-employed in the UK, you have to register with the Inland Revenue as one of several company types:

Sole trader

Being a sole trader is the easiest way to run a business, and does not involve paying any registration fees. The downsides are you are personally liable for any debts that your business incurs and, if you do well, you could be paying high income tax.

A Partnership

A partnership is like two or more Sole Traders working together. You share the profits, but also the debt.

A Limited liability partnership (LLP)

An LLP is similar to a Partnership. The only difference is the liability, or debt for example, is limited to investment in the company.

A Limited liability companies

Limited companies are separate legal entities. This means the company's finances are separate from the personal finances of their owners.

Franchises

A franchise is like a license to an existing successful business.

Social enterprises

This one probably doesn't apply to web development. According to Business Link, Social enterprises are '... businesses distinguished by their social aims. There are many different types of social enterprises, including community development trusts, housing associations, worker-owned co-operatives and leisure centres.'

This is something you must do in order to pay your taxes. Speak to your accountant about which will suit your needs better.

How to finance yourself

Before I made the leap into full-time self-employment, I read a lot of articles which said I'd need six months salary in the bank before I went out on my own. Although that is good advice, depending on your salary, that is quite a hefty chunk of cash that will be hard to save.

Like most people, I didn't have that sort of money knocking about so I had to have a close look at cash flow over the first few months of business to ensure I could pay myself. This cash came from several sources.

1. **Money in the bank.** I did have some money in the bank. Not a huge amount, but I had some.

2. **Contracts.** I had a number of contracts signed and ready to go when I went on my own. These proved invaluable in kick-starting my cash flow.
3. **Funding.** There are many funding options available. Grants, loans and private investment. All of them except grants require you to pay them back though, and for that you need a good business plan and an idea of how you're going to pay them back. Grants (and small business loans) are available from local government bodies for example. I'd advise making an appointment with your local Business Link to discuss your options.
4. **The Bank.** Get an overdraft facility. Mostly, even for limited companies, these will have to be personally guaranteed - which means if you default on paying it back then you're personally liable - but they can provide a vital buffer for cash flow in those early days.
5. **Charge up-front.** When you get a contract in, especially if it's for fixed cost, then charge a percentage up-front. This will help with the cash flow. If you can't charge up-front, then make sure you charge monthly. Again, it will keep the cash flow nice and happy.

Basic accounting

What is Cash Flow?

Cash Flow is the life blood of your new company. It's the ebb and flow of cash coming in and going out. The aim is to have a positive cash flow, so there is more cash coming in than there is going out once you deduct all your overheads.

You will also need to forecast your cash flow. This is still one of the most sobering things I have to do regularly because it clearly shows the current state of your business. Every month I review my cash flow and I forecast for three months, and for six. I make a list of all the invoices which need to be sent in those two time periods and make sure I'm hitting my monthly and quarterly cash flow targets. Like I say, it can be scary at times.

Tax

There are two types of tax: Income Tax and Corporation Tax. For Sole Traders, Partnerships and LLP's, you will be charged income tax on your profits. That's important, so I'll say it again. You'll only be taxed on your profits. Things like equipment costs, rent, phone and other office expenses are deducted from this.

Limited companies are charged Corporation Tax on their profits. The employees of that company are charged income tax on their income. As with a Sole Trader etc. Limited companies are only taxed on their profits.

VAT

If your business earns £64,000 or over in a financial year, you have to register for VAT. If you think you might hit that target during the year, you can voluntarily register before hand.

Being VAT registered means you have to charge your customers for VAT on top of your services. Currently in the UK, VAT is 17.5%. You're in effect collecting taxes for your government. Nice aren't you? One of the advantages of being VAT registered is that you can

claim VAT back of purchases for your business. Say you bought a new computer, you could claim the VAT back from that purchase.

All this VAT gets added up and you have to pay the government every quarter.

For more information of your obligations as a business to pay your taxes, go to the Inland Revenue website. There are some great tools on here to help you - you can even file your tax return online.

Establishing a customer base

Prior to starting my own business, I worked full time. As a designer, or developer, you will probably get enquiries to do freelance work in your spare time. This is the time to start building up your customer base whilst you still have the security of a full-time job. Sure, it means burning the candle at both ends, but it does ensure a smoother transition from employed to self-employed.

Schmoozing

A good way to drum up business is to network. This can be done traditionally, such as Business Club lunches and events organised by your local authority. One of the most effective ways of getting your face known is by attending the many web conferences, workshops and meetups going on throughout the country. From [Pub Standards](#) and the [Oxford Geek Nights](#) to the larger conferences such as [@Media](#) and [dConstruct](#). They all provide a great platform to meet people in the industry who may require your services.

Contribute and Interact with your market

If you're a design studio who designs websites but has a strong focus on User Experience design, then write a company blog about that subject. If you write interesting content, and give it away free, then traffic to the site will increase as will your page rank in Google. This means that if a potential client searches for User Experience, they will get your site in their search results and there is a clear path into your site from some quality content.

Giving a little quality content away for nothing may make the difference in landing that big next project.

Making the switch from being employed to self-employed

The power of the Day Job

If you're employed, but planning to go freelance, then keep your day job for a while. Get work in to work in your spare time, but use the cash that generates as a buffer for when you do go it alone. Make sure the two worlds don't collide though. Keep your boss happy in work, but now is the time to be a bit of a jobsworth. Get in on time, leave on time, take an hour for lunch - do everything you can to maximise the time you have available to work on the freelance projects.

A smooth transition

Working two jobs is hard, and you won't be able to keep it up for long. This stage in starting up your business is perhaps one of the most difficult. The aim is to ensure a smooth transition from being employed to self-employed. You will need some cash in the bank, a few contracts for your first couple of months of being on your own. The hard thing is keeping you current boss happy in the process. It's not easy.

There are a number of great job boards which advertise design and development projects regularly. The two I've used successfully in the past to drum up some business are the [37Signals Job Board](#), and [Cameron Moll's Authentic Jobs](#).

How to achieve long term success

Keep one eye on the future

Forecasting business can be quite difficult. How does cash flow look in three months time? Are you saving enough money for the end of year tax bill? To succeed in business I think you need one eye on the present and one eye fixed firmly in the future. The short-term future. Whilst it's great to have dreams and aspirations for your new business, that shouldn't be at the expense of ensuring you have enough work coming in over the next six months.

Customer service

Remember if you're a designer or developer, you're providing a service. We're in a service industry and with that comes Customer Service. I know it may sound a bit trite, but treat clients as you would like to be treated. Treat them with respect and never lose sight of that fact that they are paying the bills.

Wrapping up

Making a leap of faith is the first step to starting a business. However, for your business to grow and flourish, you will need much more than faith. First off, you must have upmost confidence in your ability to make it work. You need to be aware of the risks, but not scared to death by them. You'll need to have good organisational skills, flexibility and a high degree of commitment. Most of all, you need to have fun and love what you do.

Interview: Simon Collison

[The following is an interview conducted in Nov 2007]

Q. Why did you end up working for yourself?

After four happy and successful years with another great agency, I did start to dream about being in control. I'd sometimes receive offers to work for other people, but nothing ever grabbed me. I'd get a few people emailing me every week with requests for websites, and I grew in confidence, realising that I could actually earn enough money to survive. Generally, I just wanted to nitpick clients and decide who to work with on projects.

Q. What do you love about working for yourself now?

The autonomy. I love making my own decisions and being in total control of the direction in which we are heading, the clients we choose to work with, and being able to handpick colleagues!

Q. What don't you like about it?

Hmm, lots. The hours (I did over 100 hours last week). In general, it can take over your life if you want to produce quality work with no cutting of corners. Sacrifices are inevitable – everything from working the majority of evenings and weekends to missing your best friend's birthday. If there is an immovable deadline and the work needs doing, the buck stops with you, and no excuses are good enough.

Perhaps the biggest shock to the system is the unavoidable responsibility for ensuring that cash flow is steady and that we have enough money coming in to pay the wages, cover office rent and general overheads.

Q. If there were three key pieces of advice you could give to someone who was thinking of going into business for themselves, what would they be?

Just three? OK. One. Achieve a work/life balance and stick to it as best you can. Ultimately though, except for crisis stuff, you'll end up putting work first, so be prepared for that.

Two. Trust yourself. You will make mistakes, but generally the decision to work for yourself won't be one of them. Have the courage of your own convictions and just go for it! You will know when you are ready and have enough work or contacts to ensure you break even and can pay yourself.

Three. Realise that you are not an expert at everything, so get people to help you. Get business advice, get to know your bank manager, and use an accountant. When you are seriously busy, the last thing you'll want to be doing is invoicing, or doing anything at all in Excel.

Q. What's the biggest mistake you've made since you started up?

Under-charging in the first few months. The temptation from day one is to bring the work in and build up a client list. This kind of thing will not wreck your business, as you'll simply put the extra hours in, but it is seriously detrimental to your health and lifestyle, and even the quality of the work you produce.

Q. Where do you see your business in two years time?

Thriving – you gotta be confident, right? We're lucky in that word of mouth and recommendations bring the work to us. We don't take this for granted and never will, but the hard work in our first year is paying off, and we now have a solid foundation to build upon.

I never dreamed there'd be five of us within a year, and we hope to grow to about ten soldiers in the next 24 months. When you work this hard, you have to remember to be proud and enjoy what you do.

[Finally, rounding off with a couple of boxouts from the article]

TIMELINE: Six months to making the plunge

6 Months to go—Start building a customer base. Trawl the freelance websites (job boards - authentic jobs etc) and get yourself a few freelance gigs. Register your business with the Inland Revenue. (see section on deciding what business you should be). I'm afraid for the next six months, you'll be working two jobs. If you can get funding for your venture, start researching what you can get and when.

5 Months to go—Continue to get those freelance gigs in. Begin to research a good local accountant. Book an appointment with several banks - you'll need to get a business bank account - but it's worth shopping around. Have meetings to discuss funding opportunities.

4 Months to go—Found a good accountant? Right, you need to have a meeting with him/her regarding your new venture. Finalise your bank account with your chosen bank. Continue to build up your customer base. Now is the time to speak with some local companies to see if they need freelance help. Are you going to be working from home? If not, you need to start looking for somewhere to work from.

3 Months to go—You should be getting some money in from your freelance gigs by now. Save it—you might need it in a few months.

2 Months to go—You should be working like a dog now and really looking forward to working for yourself. At this stage, everything should pretty much be in place for you to make that smooth transition from employed to self-employed.

1 Month to go—Hand in your resignation. If possible, try and get some work booked in for the first three months of being on your own. Make sure you also get paid by these clients monthly so cashflow isn't an issue.

Ten things I wish I'd known

10. Wearing many hats

Before I set up business, I'd read a fair few 'how to' books and a number of blogs that talked about the many roles you would have to adopt whilst running your new business. I still struggle with it. On a typical day I am a designer, a project manager, a salesman and a book-keeper. Each role requires a different mindset and it can be very difficult to switch between them.

9. Home is for home things

Keep work and home separate. When you work at home, this can be difficult. When I had my workplace in my house, I made sure it was a completely different room which was furnished like an office—not just your spare room with a desk in it. One tip which worked for me: wear your shoes during the day, when you're working, and at night, take them off. It's a silly little thing, but you will soon associate shoes with work. So, when you take them off, that's home time.

8. What goes around comes around

Be nice to people. Business doesn't have to be unpleasant. Treat people how you expect to be treated. Be fair, professional and above all, polite.

7. Don't take on too much

This one is a killer. I still do it and probably will for many years to come. When you don't have any work booked in in three months time, the tendency is to get more work in now with the hope that, financial, you'll be more stable in the months you don't have work. It makes sense, but you end up working too hard. As a result, quality dips, customers get a bad service and, over time, your business will dry up.

6. Hire somebody before you need to

I've recently had this problem. I've been so busy recently that I needed help. After hiring someone, I realised I'd been in this position for too long. I needed help about three months before I thought I did.

5. Don't under-charge

Work out your costs on an hourly, or daily, basis and then add 30%. It covers costs and, until you get the hang of it, you're probably under-charging anyway. I was.

4. Confidence

Remember, you're the expert. You're not doing this job because you're average at it. If a customer wants to buy your product, or hire you, it's because you're good at what you do.

3. Customer Service

If you're a web designer or developer, unless you're producing and selling a product, you will be providing a service. With a service comes Customer Service and, yes, customers are always right.

2. Accounting Software

I was using a homemade system coupled with an Excel spreadsheet for my accounting needs. As the business grew, I needed something a little robust. I wish I'd learnt Sage or something sooner because now I don't really have the time.

1. Plan for tomorrow

I have three to-do lists. A Month list, a Three Month and a Six Month. Each list has a bunch of things I need to do for that time period. This allows me to have short, mid and long term goals. I class Six Month as long term here as, in this industry, I believe you need to be adaptable and can't really plan for more than six months in advance.

Just the way I like it

As I said, this is just the way I set things up, and some of the many thoughts and conclusions that I came to over the past couple of years of running my own business. Hope it may help some of you thinking of taking the plunge.



I'm a graphic designer from near Cardiff in the UK. I've been a designer for over ten years now and primarily work on the web. I'm still partial to a bit of print every now and then though. I used to work for [Agency.com](#) in London as an Art Director before working as a Senior Designer for the [BBC](#) in sunny Cardiff. This was all before I took leave of my senses and formed my own design consultancy, [Mark Boulton Design Ltd.](#)

I've got a thing about grids and typography and occasionally [ramble on about them](#) to anyone who will listen.

[Mark Boulton Design](#)

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