

# The Red Stuff Handbook

Everything you wanted to know about the mechanics of setting up a small business in the UK

Andrew Halfacre

# Copyright

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*The Red Stuff Handbook: everything you wanted to know about the mechanics of setting up a small business in the UK*  
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## Becoming Your Own Boss

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Making the move from an employee to employing yourself is an increasingly popular choice in recent redundancy programmes.

There are a number of reasons for this. A dissatisfaction with the management style and culture found in a lot of bigger organisations, the chance to design a life closer to your long held dreams or simply that a generous redundancy package makes other choices available to you.

You can start a business that works, one that gives you what you want, without having to change your personality. All it takes is the right information, used the right way.

Perhaps you want to...

- Turn a hobby into a business and make it your main source of income...
- Take a marketable skill you have and get paid for it directly...
- Use your pension or early retirement as a springboard to having your own business...
- Use your redundancy payment to launch a business...
- Create a portfolio life, moving from one job to many via consultancy, interim work or agency roles...
- Or finally build a life that enables you to do interesting work and earn the money you need...

Whatever your reasons for wanting to Become Your Own Boss it's worth taking the time to think through what it would really mean for you.

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### Why Employ Yourself?

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Research shows that despite the stereotype, most businesses are not started by entrepreneurs pursuing an opportunity, most are started by craftsmen or technical specialists who are fed up with being managed and think that the grass would be greener if they managed themselves.

Many of these people are craftsmen in the widest sense of the word - a man or woman who loves their craft and longs to be left alone to pursue it to their very highest standard - something that the daily bureaucracy of a big company rarely allows.

This approach - wanting to move away from employee status carries inherent dangers though.

Firstly, it can blind you to the need to find people who actually want to buy your product or service. Moving away from a situation you do not like can cause you to miss the need to have something to move towards.

Secondly, you can overemphasise the supposed freedom of the independent

business person. A common misconception is that you will work less hours for more money. It frequently proves the other way. It can be lonely, hard work and requires constant mental, emotional and physical focus to make it work - particularly in the early days.

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### Write Down Your Reasons

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At this stage it can be very helpful to be clear with yourself what your reasons are for wanting to be your own boss. Write them down. Make sure you have captured all of them. Now see how many are a desire to move away from your old situation and how many are a clear opportunity to move towards.

This can be instructive and if you find that you really only want to move away from the past then it might be that your desire to run your own business is really masking a desire for more freedom and control in your life. Starting a business is only one way to do this and may not be the right answer for you.

Consider spending some time daydreaming with yourself to explore these thoughts and see whether there are alternative ways of making some lifestyle changes that don't involve starting a business.

*Ewan Uzarmy was a successful senior manager working long hours at a job he used to enjoy in an industry that used to be fun but was now highly competitive. He lived in a world of cost control, meetings, "always on" connections and constant reorganisation. Just lately he'd begun to notice how dry and stale he was. He dreamed of the freedom of running his own business egged on by the occasional friend or contractor who assured him he could do it. TV programmes like Dragon's Den sent him off day dreaming of the day he ran his own business.*

*Fortunately, Ewan began to work with a coach who helped him see that actually what had happened*

*was he'd let his life get right out of balance. Work consumed too much of him and he'd lost his way a bit. Self employment wasn't the answer but acting as if he was the CEO of his own life very much was the answer. Ewan began to rebalance, cutting back work, taking up long forgotten hobbies, paying more attention at home. And with a new self determination at work he found that he could do more of what he loved and less of what he didn't so he was able to keep all the benefits of work with the attitude of a businessperson. No-one was surprised when promotion followed.*

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### What Does It Involve?

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Research shows that there are three main things you need to have in place to start a business that works:

#### **Mechanics**

You need to understand the mechanics of how it all works - tax, national insurance, expenses, VAT, whether to be a partnership, sole trader, limited company or one of the other business structures you can use.

This area needs constant attention and you'll need to create systems, structures and new behaviours to manage it. You may well end up having to pay someone to help you with this.

The biggest problem with all the mechanics is that it will cost you time and money while not actually building you a business - it's just mechanics.

This guide - **The Red Stuff Handbook** - covers these mechanics in detail.

#### **Marketing**

You need to know how you are going to make sales by bringing together your customers and your product or service. This activity enables you to take money from their pockets and put it in yours.

Again, this requires you to learn some new skills, learn to manage sales and get used to asking for money for what you do. It is also the time you spend doing what you love and getting paid for it.

The **Red Stuff Handbook** does not cover marketing at all, it's purely mechanics. For your marketing, I highly recommend you treat yourself to the [Marketing Manual](#) produced by Robert Middleton over at Action Plan Marketing. I have a copy and it's the main reason why I haven't written a Blue Stuff Guide. [Read more about the Marketing Manual.](#)

## Me

You need to know some things about yourself - have you got the DNA to start, pursue and run a business? It's very different to working for someone else and needs a different approach. You'll need to make sure you regularly take a step back from the mechanics and the day to day activity to take a helicopter view of you and where you are going.

These three areas are three balls that you need to keep in the air. Drop one or forget one and you're soon in trouble.

Above all they require a willingness to actively manage your life from now on, making the move from subservient employee thinking to independent free agent thinking.

**Do you have the appetite for this?**

## It's All About The Fish

If you want to catch fish there are two basic approaches you can take.

The first is to worry about the gear. What equipment do I need? What type of rod? Do I need an umbrella? and then, when you have all the right gear, go and look for fish.

For a new business this will result in struggle and probable failure. The most common mistake new start ups make is to worry about their product / service, spend loads of time and energy on it and then set about looking for customers for it.

The second approach to successful fishing is to answer the only question that's really important - **Where are the fish?** And then fish where the fish are. The fish will tell you what gear you need and in most cases, if you are fishing where there are lots of fish then you could use almost any gear and you would catch something.

For a new business this is the route to success. It's a three stage process:

- Find a crowd of customers who want something
- Find out exactly, in detail, what they already want
- Give them exactly, in detail, what they already want

**Instead of looking for customers for your product or service, get close to your customers and set about finding products and services for them.**

## How To Succeed In A New Business

Here are some general principles that will increase your chances of success.

### Marketing

Start with your customers. If you want to grow you need new customers and if you want new customers you need three things:

- A group of possible customers you can identify and reach
- A group with a problem they want to solve using your solution
- A group with the desire and ability to spend money to solve that problem

(“Three things you need if you want more customers” [Seth Godin](#), Feb. 2009)

Unfortunately, these days, if you don't have the first one and particularly if you don't have their permission or knowledge or word of mouth entry to that group then you are invisible and will have to resort to starting a business and waving madly at the market to attract attention. This is slow and painful.

**Just because it is a good idea or an excellent service does not mean that anyone will buy it. Increase your chances by making sure you start with a group that meets the criteria above.**

## **Me**

There are actually no special characteristics that successful entrepreneurs share apart from the fact that they are all human. In general though there are some behaviours that you see over and over again in successful people in any field including new business start-ups:

- A clear and specific focus. Knowing what to aim at and knowing the reason why.
- Feedback and measurement systems that enable them to track progress.

- A willingness to change their behaviour over and over again to get the result.
- An attitude of taking full responsibility for their results and the skill of motivating themselves to take action

Most of the inventories out there that claim to test for entrepreneurial skills tend to focus on a particular form of sales based entrepreneurship typically on display in places like Dragon's Den. Loud, salesy, entrepreneurial extroverts who have built successful businesses make the typical mistake of assuming that theirs is the only way, so they write books in their own image. If only you can become more like me, the subtext reads, then you will succeed.

## **What if you're not like that though? Can you still become your own boss?**

Whilst some of this has to do with the type of business that you choose to build, I tend to look for one particular mindset - the driver. In general, people who make the easiest transition from employment to employing themselves are those who think like drivers instead of passengers. Drivers, on the whole, will tend to make a success of what they turn their hand to. Passengers on the whole, won't.

# Are You A Driver Or A Passenger?

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## **If Your Life Was A Bus, Who Is Driving?**

A driver...

- Takes full responsibility for results
- Is able to choose their emotional reaction to events and circumstances
- Is able to generate lots of new options and choices for themselves
- Is willing to face the discomfort of owning up to their own role in creating situations
- Acknowledges outside forces as an influence in their life only to the extent that they let it influence their next choice
- Recognises that another person (boss etc.) can only influence their choices to the extent that they let them. They do not blame others for their results.

- A driver knows that with enough flexibility you can get anything.
- Often asks "How can I change this situation?"

Thinking like a passenger, on the other hand, can make it very hard to start a new business:

### A passenger...

- Takes little responsibility for results.
- Acts as if they were a victim of circumstance.
- Believes they have no choice over the behaviour they are exhibiting right now.
- Invents villains to blame for their choices - their history, other people, their ancestry, the stars, their genes etc.
- Sees life as fate / inevitable.
- Take comfort from the fact that there is nothing they can do.
- A passenger looks for someone or some event to rescue them.
- Often asks "Why is this happening to me?"

Drivers tend to use results based language while passengers tend to rehearse reasons (excuses) why things did not happen.

It's easier to become your own boss if you operate as a driver rather than a passenger.

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### How Is This Useful?

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As you grow your business you are going to run into brick walls; times or circumstances where someone or something appears to be an obstacle. At such times it is very tempting to think like a Passenger but the solution is usually to sharpen up your driving.

This means taking complete responsibility for where you are now (even if not your fault) and then looking for what to do differently.

This is not easy but it works a lot better than whinging. A great question for those challenging situations is "**What is my role in creating this?**" Once you begin to see how your choices have affected the situation, other options usually offer themselves.

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### You'll Be Wearing Many Hats

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Becoming your own boss means getting used to wearing many hats. Here are a few of them.

- **Marketing Manager** - in charge of presenting your business to potential customers and creating the context for the Sales Manager to get the business.
- **Product Development** - in charge of keeping you current and fresh so you always have something to offer.
- **Operations Manager** - makes the trains run on time and the figures add up. A systems guru who makes sure that customers stay impressed by how slick you are.
- **Client Service Director** - the customer champion in your business who makes clients your top, explicit, priority.
- **Sales Manager** - sells, sells, sells. Brings money in so that you can eat. Anticipates and plans for future sales.

- **Information/Information Technology Manager** - makes sure you can deal with the thousands of pieces of information out there and that you have the tools and systems to make delivering results easy.
- **Strategy Director** - looks after time management, planning and anticipating the future. Has to look ahead all the time to see what's coming and what you need to do.

It's a lot isn't it? Becoming your own boss makes you CEO and also the accounts receivable clerk.

**Do you have the appetite to become a seven headed marvel or the willingness to manage others to do them for you?**

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## Money

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Starting a business requires you to focus on money a lot more clearly than employees ever do.

It's worth remembering that the route to success is to have more money coming in than going out.

Although this seems obvious and banal it is astonishing how many people forget this basic approach. Even very big businesses occasionally miss the self evident truth that they must have more money coming in than going out.

Here's the calculation you'll live by:

**Negotiated prices minus costs equals profit.**

You'll pay tax on the profit and be able to live on what's left.

This means that two things need managing all the time - your prices and your costs.

**Do you have the appetite to explicitly manage money in this way?**

Without it you would probably be more comfortable in a job.

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## Who Can Help Me?

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### BusinessLink

[www.businesslink.gov.uk](http://www.businesslink.gov.uk) is the national support site for people interested in starting a business.

From the site you can find your local BusinessLink office, most of whom offer a free consultation with an experienced adviser.

### Inland Revenue Workshops

A search at [www.hmrc.gov.uk/bst](http://www.hmrc.gov.uk/bst) will take you to the booking details for free workshops run by Revenue and Customs in your area.

These workshops cover a number of the mechanics of starting a business from registration to payroll and offer a chance to meet directly with their Business Support Teams.

This may be useful research as part of your decision making process.

### Find a model

Perhaps the most useful source of help though is to find yourself a model, someone who has trodden this path before you.

Most people who have made a similar change are only too glad to help someone else who has questions and you will often find them to be generous with their time and attention.

Think about who you know who is already doing the kind of thing you want to do - friends, ex colleagues, family, customers, suppliers, other independents you know.

Think about what you would like to ask them and then buy them lunch. If you know others in a similar position with similar questions, make it a bigger meeting.

You can find out a tremendous amount by asking someone who has done it already and since the alternative is learning by trial and

error you may well save a lot of time and money too.

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## Use A Checklist

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There is a checklist at the very end of this handbook and bits of it at the end of each section in this book with suggested actions to take. You don't have to do them all.

There is also a very useful task manager on the business link website where you can generate a bespoke checklist for your new business - go to [www.businesslink.gov.uk](http://www.businesslink.gov.uk) and search for "Task Manager".

## Checklist: Do I Have What It Takes To Be My Own Boss?

### Attitude

- I'm a driver - I take responsibility instead of looking for something or someone to blame for my results
- I create my own luck
- I'm curious and willing to look beyond the easy answers
- I'm creative and enjoy generating multiple solutions to any problem or situation
- I keep going when others are ready to give up
- I understand the concept of continuous improvement (Kaizen) and work to make it a reality for the way I do business
- I can take complicated problems and reduce them to bite-sized pieces
- I'm determined to do what it takes to make this business a reality
- I'm flexible enough to keep changing what I do until I get results
- I have the mental resilience to cope with the pressure of an empty diary
- I am willing to work hard whilst earning minimum wages until I achieve what I'm aiming for
- I am neither over optimistic nor over cautious

### Money

- I understand how money works in a business and am willing to manage cash flows every day
- My will is up to date
- My life insurance is adequate
- I have a financial reserve of 3 to 6 months personal expenses
- I have pension arrangements in place and understand how the business may affect these
- I have a fall back plan if things change

### Family

- My family are ready for a change in my energy, work patterns and income

- I have the clear and generous support of my family

### Skills, Knowledge, Experience

- I'm passionate and enthusiastic about helping customers in this market
- I believe in what I want to do and it will bring me a great deal of personal satisfaction
- Even if it does not work, it will benefit me in the long run
- I'm building on solid experience and a track record in this industry
- I know what my strengths are and which skills I'm missing
- I know where my weaknesses are and have a plan to mitigate them

### Ready to go?

- I have a written goal for my business
- I have a clear vision for what I'm doing and the type of customers I want to attract
- I can explain what success looks like for me
- I have a written business plan that convinces me to go for it
- I have a simple mantra for my business that will assist me as it grows
- What I'm selling is obvious - there is no need to educate the market
- I am mentally ready for the emotional work of starting a new business
- I have cleared the decks - clutter out, car cleaned, right tools in place
- I have set up my office and tools so that I can work effectively
- I'm up to date with information technology and able to make the best use of these tools or I have reliable sources of help with IT
- I have identified potential associates or partners
- I'm physically fit with a good health record

**Mentor / Business Coach**

- I have identified a mentor / business coach
- I have friends with whom I can talk about how my new business is progressing
- I have discussed my ideas with someone who is kind, not brutal
- I have discussed my ideas with someone who is brutal, not kind

**Other**

- I have called in all the favours I need to help me get going
- I have contacted potential 'models' - people who have trodden this path already

- I am talking to successful people in the same field
- I have looked for inspiration from entrepreneurial heroes
- My plans include time for creative thinking
- I can talk about the significant market trends that may affect my business in the next 12 - 24 months
- I have an exit plan - I know when I want to stop and what to do before then
- Outside of this business idea I have regular activities that refresh me and my ideas

**You May Find These Books Helpful**

[Entrepreneurs book of checklists](#) - Useful lists of 10 that cover all the areas of being in business.

[Teach Yourself Running Your Own Business](#) - A very practical guide divided into easily digestible chunks.

[Anyone Can Do It](#) - The story of Sahir and Bobby Hashimi who started Coffee Republic. Very detailed with lots of practical advice AND a copy of their business plan.

## How To Use This Handbook

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### **What Do I Actually Need To Do To Set Up A Small Business In The UK?**

As someone who is planning to start a new business, it is likely that this is one of your recurring questions. It is vitally important that you do things in the right order to save money and more importantly to save time.

Every year I meet hundreds of people who are thinking of starting a small business and overwhelmingly they want to know about the mechanics of how it all works. I've been through this myself and this is the stuff that nobody tells you. There is plenty of start-up advice out there but you are still left with conflicting information that you need to piece together yourself.

This handbook makes that a whole lot easier.

Just remember that this is not a guide to how to [find customers or make money](#). It's just about mechanics.

### **Why “Red Stuff”?**

Because this stuff is your lifeblood, the activity that goes into setting up, supporting and running your business is the liquid that enables you to start and stay trading. It's all the mechanics, legal, structural stuff that is usually such a yawn.

Nothing here will make you money (that's **Blue Stuff**) and there is nothing here to help you decide whether it is right for you (that's **Black Stuff!**) but it will help you avoid traps and make a faster start.

### **“Success? Ownership is half; Execution is the other half”**

**Felix Dennis**  
**How to be rich**

**How To Use This Guide**  
Let's face it. Although you are curious about the mechanics, it is not the most thrilling subject in the world. I believe that you want hard, fast, practical information that you can use right away so it's written that way.

I recommend you read the section on legal structure first and then just dip in and out of the rest following your curiosity.

- This tick bullet, which you'll find throughout the handbook, highlights an action you can take to move your business forward and I've also put a checklist at the end to help you.
- Click on these blue links for [free downloads and links to the website](#) as well.

Enjoy the guide and do let me know what you think. I'd love your comments, questions or suggestions. Contact me at [syob@mac.com](mailto:syob@mac.com) or [www.andrewhalfacre.co.uk](http://www.andrewhalfacre.co.uk) .



## 12 Questions

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I believe you face twelve basic decisions about the mechanics of setting up your own business, which are...

1. **Are you planning to build income or equity?**
2. **Which legal structure are you going to use (e.g. Sole Trader v. Ltd Company) and should you buy a franchise?**
3. **Do you need an accountant and a business bank account?**
4. **Are you going to register for VAT - now, later or never?**
5. **Should you buy a company car or van?**
6. **Are you clear about business expenses and how to claim them?**
7. **Do you know how to organise yourself, send invoices and get paid?**
8. **How will you price your goods or services?**
9. **Will your work be caught by IR35 and can you avoid it?**
10. **Which insurance cover should you buy?**
11. **Should you employ other people - now, later or not at all?**
12. **Do you need a website and should you trade on the internet?**

This handbook answers these questions and also refers you to other places where you can get support or extra information. Scan the contents list to get a feel for what's here.

### **And One Other Thing...**

This is a workbook and toolkit, so maybe you'll want to write on it, scribble across it, doodle, cross things out and so on.

**It's designed to be printed double sided so why not print it now so you're ready to start...**

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