



Business
Link

How do I survive until my business is off the ground?

It can be a number of months before a new business is profitable and generating a cash surplus. You may need alternative sources of income during this period, if only to cover your outgoings. If your business does make a profit, you may want to re-invest it to help your business develop.

This guide gives advice on how to keep your business afloat in the early days. It will help you work out your profits and financial needs, reduce your spending, re-invest your money and find further funds.

Careful planning and the right advice can make this transitional phase much easier to manage. A Business Link adviser or a financial adviser can help you address these issues further.

Forecast your personal financial needs

When starting your business you will need to make a realistic forecast of your personal financial needs. A **personal budget** is a plan detailing the personal living expenses you will need to fund from the business or other sources. It should set limits to the amount you plan to spend each month on items like rent, food and housekeeping.

Tracking your personal spending can help you find out how much money you will need to take from the business. You can download our personal budget spreadsheet (XLS, 25K) - Opens in a new window and adapt it to your individual needs.

You can now work out how much money you will need each month. If you multiply the monthly figure by 12, and make adjustments to cover one-off spending such as holidays or car tax, you will know how much you need to live on during your first year of trading.

It is important to be realistic. You may need to find other funds, borrow money or ask HM Revenue & Customs or Jobcentre Plus whether you qualify for tax credits or benefits. Financial advisers usually say that the equivalent of three months money should be held on deposit for a rainy day.

Some expenses, such as your rent or mortgage, are likely to be fixed, whilst your spending on other items may change from month to month. You need to keep a close eye on the areas where savings can be made - such as leisure or travel. The first year in business is vital, so you may have to accept that a financial sacrifice of some sort is required to keep on trading.

How much money will your business make?

You need to identify how much money your business is likely to bring in over the coming year and then how much profit you hope to make.

You can do this by:

- estimating your total income from sales
- estimating your expenses
- working out a figure for salaries and dividends, including tax

- working out the difference between your financial requirements and the amount you are prepared to take out of the business

This will leave you with the amount you potentially need to find from other sources. For advice on what you will need to take into account and plan for, see our guide on how to prepare a business plan.

Profit and cashflow

It may not be easy to calculate exactly how much your business will make in its first year, so it is important to concentrate on managing cashflow rather than profit.

Profit is the difference between the total amount your business earns and the costs it must pay out over the trading period - usually a year. Even a nominally profitable business can find itself in trouble if it runs out of cash.

Cashflow is the balance of all the money flowing into, and out of, your business. It covers actual payments of money, as opposed to what is owed by your debtors or to your creditors. Cash pays the bills and allows trading to continue. The need for cash is even greater if your business is growing and extending credit to more customers.

The main outflows of cash are:

- wages and salaries
- overheads such as rent and rates
- capital spending on plant and equipment
- working capital such as stock and raw materials

If you sell on credit, your cash inflow is delayed until you are actually paid so effective credit control is important. A business that buys on credit and is paid in cash, such as a retailer, is at a great advantage in cashflow terms. Businesses which make sales over the internet can also be cash positive.

Many businesses rely on bank overdrafts and quickly reach their borrowing limits. It is therefore important to think carefully about your cashflow and reduce the need to rely on an overdraft. See our guide on cashflow management: the basics.

Make savings

There are ways you can save money on goods and services, both at home and in your business.

Making personal savings

You may be able to reduce the amount of money you pay out each month, simply by shopping around for services and loans. If you already have personal debts, for example on credit cards or personal loans, seek advice from an independent adviser or your bank as it may be possible to reduce your outgoings this way as well.

There are many ways you can save money on essential goods and services. Many **utility companies** offer attractive deals when you change to a new supplier. Look carefully at exactly what is being offered - you may find, for example, that you can make savings if you receive both your gas and electricity from a single supplier.

You can also try to reduce your everyday expenses. For example, you could sell your car and buy one that is cheaper to run or use public transport. You could also choose not to update personal equipment such as your laptop or mobile phone until it is absolutely necessary.

Making savings in your business

You could implement simple cost control systems across your whole business to identify scope for savings. You could cut unnecessary or excessive costs, for example, by not heating your premises at night or finding low price suppliers for goods or services. Adopting 'green' practices such as switching off computers when not in use can also save money as well as reducing your carbon footprint. Consider leasing goods or buying them second hand. Consider whether you can save money by running your business from home. See our guide on how to use your home as a workplace.

Other sources of income

You will almost certainly have to find other ways to finance your needs during the early days of your business.

There are a number of options open to you. You could:

- Use savings - make sure that you have an emergency rainy-day fund which should add up to three months spending.
- Start up a business while retaining your existing employment - using your spare time to run your business.
- Release equity from an existing asset - for example, trading in your car for a cheaper one.
- Sell unwanted assets to create income - many people have things that they do not use or want that can be sold at auctions, online or private sales.
- Get a loan from your family and friends. In most cases people who borrow from family or friends do not pay as much interest on such loans. However, be aware of ill feeling that may be caused if you are unable to repay on time. See our guide on financing from friends and family.
- Seek finance from a low-cost fund managed by a local enterprise agency or community organisation.
- Borrow against future income by selling debts owed to you to a third party - see our guide on factoring and invoice discounting: the basics.
- Get an overdraft or loan from your bank. Remember that the overdraft or loan will have to be repaid, and the interest rate may be high. See our guide on bank finance.
- Use leasing or hire purchase to fund fixed assets such as vehicles or equipment.
- Seek investment from external sources in return for a share in your business. See our guide on equity finance.
- Take on a second or part-time job - this will provide a useful source of income but it is important that it does not distract you from your priority of running your business.

Use our interactive tool to identify the right finance options for your business.

Prepare a financial plan

Once you have gathered together all your key financial information such as estimates, overheads and expenses you can produce a financial plan.

The first step is to draw up a **budget** - a plan for spending and saving your money.

You should:

- prepare budgets showing the level of sales and profits you expect to achieve, and the costs involved in doing so
- estimate your total sales - see our guide on how to forecast and plan your sales

- prepare monthly or weekly cashflow forecasts (which should be regularly updated), looking ahead one year - overheads such as rent can be accurately predicted
- make sure you will have enough money on the day to cover each payment

Download a spreadsheet containing cashflow forecast, profit and loss forecast and sales forecast templates (XLS, 44K) - [Opens in a new window.](#)

Once you have drawn up your budget, it is important to stick to it so you don't risk overspending or running out of money for essentials. The key to budgeting is maintaining simple but good records. You will need to keep track of where your money comes from and where it goes.

For more information on preparing a financial plan read our guide on budgeting and business planning.

Find support

Most businesses need assistance at some stage in their development. This is especially true of businesses in the early days.

There are a number of sources of help, including:

- local Business Links
- start-up schemes run by local enterprise agencies and others
- schemes for young starters such as Shell LiveWIRE and Prince's Trust
- schemes for starters aged 50 plus, eg PRIME
- schemes for women starters including Women in Business, and everywoman
- schemes for starters from ethnic minority communities including the African Caribbean Business Network and the Asian Business Network (ABDN)
- financial advisers
- accountants

Bear in mind that you will almost certainly have to pay for the specialist knowledge and advice from financial advisers and accountants. You can search for an independent financial adviser on the Independent Financial Adviser Promotion website - [Opens in a new window.](#)

It is a good idea to have an accountant for your business. Although having an accountant is an additional expense, it is a good investment. For more information, see our guide on how to choose and manage an accountant.

The Prince's Trust is an initiative to help young people to succeed in business. The Trust offers advice, opportunities and financial assistance. Find out how the Trust can help you on the Prince's Trust website - [Opens in a new window.](#)

Another body that helps new businesses is Shell LiveWIRE. This organisation aims to encourage young people aged between 18 and 30 to start up their own business. Find out what help you can get on the Shell LiveWIRE website - [Opens in a new window.](#)

If you're receiving **Jobseeker's Allowance** and want to get back into employment by starting your own business, find out how New Deal can help you on the Directgov website - [Opens in a new window.](#) You can also ask your adviser about the self-employed support package provided by Business Link through Jobcentre Plus. This package is aimed at people who have been unemployed and claiming Jobseeker's Allowance for six months or longer.

You may also be entitled to Working Tax Credits. These are payments to top up the earnings of working people on low incomes, including the self-employed. You can find out about Working Tax Credits by calling the HMRC Tax Credits Helpline on Tel 0845 300 3900.

If you find that your business is unable to pay the taxes it owes to HMRC, contact the HMRC Business Payment Support Service. Their team will review your

circumstances and discuss temporary options tailored to your business needs, such as arranging for you to make payments over a longer period. You can contact the HMRC Business Payment Support Service Helpline on Tel 0845 302 1435.

Business Link Helpline

0845 600 9 006

Prince's Trust Helpline

0800 842 842

HMRC Newly Self-Employed Helpline

0845 915 4515

HMRC Tax Credits Helpline

0845 300 3900

Related guides on businesslink.gov.uk

Manage your personal list of starting-up tasks with our Business start-up organiser

Listen to expert advice on starting a business in our series of audio interviews

Find your local Business Link in our Contacts Directory

Use our interactive tool to identify the right finance options for your business

Use our personal budget spreadsheet template (XLS, 25K)

Budgeting and business planning

Starting a business from home

Are you ready to start up?

Common mistakes when starting up - and how to avoid them

Starting a business when economic conditions are tough

Download our sample cashflow projection spreadsheet (XLS, 79K)

Prepare a business plan

Cashflow management: the basics

Identify potential cashflow problems

Marketing on a tight budget

Tax advantages for those starting up in business

Use your home as a workplace

Search our business support finder for grants, loans, expertise and advice for which your business may be eligible

Bank finance

Financing from friends and family

Factoring and invoice discounting: the basics

Equity finance

Grants: the basics

Choose the right finance when starting up

Download a spreadsheet containing cashflow forecast, profit and loss forecast and sales forecast templates (XLS, 44K)

Choose and work with an accountant

Forecast and plan your sales

Online business networking and social networking

Starting a business when you are young

Starting a business - advice for women

Starting a business when you are 50 plus

Starting a business as a minority ethnic person

Related web sites you might find useful

Financial adviser database on the Independent Financial Adviser Promotion website

<http://www.unbiased.co.uk/aifa/index.asp>

Online business mentoring on the horsesmouth website

<http://www.horsesmouth.co.uk/publisha.content/spotlight/taxonomy.publisha>

Tax credit information on the Directgov website

http://www.direct.gov.uk/en/MoneyTaxAndBenefits/TaxCreditsandChildBenefit/TaxCredits/DG_073802

Download a practical guide to cashflow management from the Chartered Institute of Management Accountants website (PDF, 366K)

http://www.cimaglobal.com/cps/rde/xbcr/SID-0A82C289-B5230B7B/live/cid_improving_cashflow_using_credit_mgm_Apr09.pdf.pdf

Cashflow guidance on the Start up Donut website

<http://www.startupdonut.co.uk/startup/finance/keeping-your-cashflow-healthy>

Cashflow management course on the learndirect business website

<http://www1.learndirect-business.com/financial-management/staying-afloat-a-guide-to-cashflow>

Start up finance resources on the Start up Donut website

<http://www.startupdonut.co.uk/startup/finance/working-out-your-start-up-costs>

Finance options explained on the Start up Donut website

<http://www.startupdonut.co.uk/startup/finance/sources-of-start-up-finance>

Budgeting guidance on the Start up Donut website

<http://www.startupdonut.co.uk/startup/finance/keeping-your-cashflow-healthy/budgeting>

New Deal information on the Directgov website

http://www.direct.gov.uk/en/Employment/Jobseekers/programmesandservices/DG_173717

Local business support on the National Federation of Enterprise Agencies website

<http://www.nfea.com>

50+ business support on the PRIME website

<http://www.primebusinessclub.co.uk>

Business support for minority ethnic businesses on the ABDN website

<http://www.abdn.org.uk/>

Business support on the everywoman website

<http://www.everywoman.com/>

Business support on the Women in Business Network website

<http://www.wibn.co.uk>

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