

## HOW TO...GUIDES

### How to...Manage your business finance – ten top tips

*'Take care of the pennies and the pounds will take care of themselves'*. English proverb

#### 1. Business Link

Business Link is the government's online resource for businesses.

It contains essential information, support and services for you and your business – whether you work for a large organisation or are on your way to starting up.

Simple to use, up to date and practical, Business Link is the first place to go to find guidance on regulations and to access government services. It also has a number of useful online tools, calculators, and best practice case studies; and provides access to funding options, as well as wider support.

From November 2011, the Business Link website will be enhanced with new, easy-to-use information to help you start-up, improve and grow your business.

And from April 2012, Business Link has advised that small businesses will be able to access advice through a national website – [www.businesslink.gov.uk](http://www.businesslink.gov.uk) - and a call centre.

#### 2. Financial planning

It's essential to plan and tightly manage your business' financial performance. Creating a budgeting process is the most effective way to keep your business – and its finances – on track.

Business Link offer an online stage-by-stage guide to successful financial planning that includes:

- Planning for business success
- What to include in your annual business plan
- Budgets and business planning
- Creating a budget
- Key steps in drawing up a budget
- What your budget should cover

- Use your budget to measure performance
- Review your budget regularly
- Live case study examples of how budgeting and business planning have helped other businesses

Visit: [www.businesslink.gov.uk](http://www.businesslink.gov.uk) - budgeting and business planning – for further detail

*(NB: at the time of writing this guide [Sept 2011], Business Link have advised that, from April 2012, small businesses will be able to access advice through a national website – [www.businesslink.gov.uk](http://www.businesslink.gov.uk) - and a call centre).*

### **3. Managing finances**

The accounting needs of your business will vary according to its size, type and sector. As the business owner, it's your responsibility to make sure your business keeps accurate records and accounts.

There are two types of accounting information – financial accounts and management accounts.

Financial accounts describe the performance of your business and – if you are a limited company – they have to be filed at Companies House. Management accounts are aimed at helping you to plan your business and make decisions about key areas such as sales, margins, and stock.

Business Link offer an online stage-by-stage guide to successful financial management and accounting that includes:

- Financial accounts
- Filing financial accounts
- Management accounts
- Uses of management accounting
- The importance of maintaining accurate accounts
- Analytical accounting tools

Visit: [www.businesslink.gov.uk](http://www.businesslink.gov.uk) - financial and management accounts: the basics – for further detail.

#### 4. Managing cash flow

Cash flow is said to be the lifeblood of any business.

Focus your energy on improving cash flow, and enlist the help of your accountant. Here are a few suggestions:

- **Produce monthly cash flow records** – if you have your own accounting packages, e.g. Sage or Quickbooks, you can produce these easily at the touch of a button – go back historically for as long as you’ve been using the system. If you don’t have a package, talk to an accountant about getting one, or use spreadsheets to record your monthly income and outgoings.
- **Look at where the bottlenecks are** – identify the ‘hotspots’, where cash gets to its lowest ebb - this will help you to work out options for improving the flow. You can then try to stagger payments to a time when you have more cash.
- **Keep a cash reserve** – tourism is usually seasonal. Try to build up cash reserves (in interest paying accounts) for the leaner times.
- **Build up a fund for bigger expenses** – if you know you have big expenses looming in the year, e.g. tax bills, annual insurances or advertising costs, then siphon off monthly amounts into high interest earning accounts to save for these. In richer months make double payments to cover for leaner months when you can’t make any.
- **Inject personal or private cash to avoid fees** – using your own savings or other private funds (if available) can avoid high interest loans or overdraft charges.
- **Check your balance and payments to date before you pay** – check balances carefully and look at what payments are still to clear *before* you pay.
- **Look at changing payment dates** – can you change payment dates on bigger items – utilities, wages, loan payments, lease payments, major suppliers – to spread items out?
- **Are you paying VAT as efficiently as possible?** – HMRC offers different schemes for paying your VAT, including the flat rate one. Look at your options and see what’s best.
- **Restructure loans** – you may be able to restructure or renegotiate loans to reduce payments, or take payment holidays. It is always worth talking to lenders to see what they will offer.
- **Tighten billing** – make sure extras get billed, e.g. avoid bottles of wine being missed off the bill, room service overlooked or forgetting to invoice for extras.

- **Encourage advance payment and online payment** – taking online payments means you open up the range of customers willing to buy from you and you get the money at the time of booking or purchase. (See '*online booking and selling online*' further on in this Guide.)

If you're an accommodation business, also look at taking a deposit. Self-catering providers can take 100% of payment pre-arrival – this can also apply to serviced providers and is actually preferred by some customers.

Marketing purchases as gifts is another 'natural' way to take advance payments. Third party purchasers expect and want to pay up-front, so their receivers don't have to get involved with payment. Think about offering a gift voucher or downloadable certificate so there is something to physically give, and incentivise advance purchases with added extras, e.g. a free bottle of wine with a meal or room, express entry, a free coffee, complimentary audio guide or children's quiz with attraction tickets. But always ensure you have a very clear cancellation policy and proper terms and conditions that include when the voucher cannot be taken up.

- **Reduce stock** – careful stock and inventory management can free up much needed cash. Consider offering less choice, but raise the quality, e.g. six great dishes instead of 10 ordinary ones.
- **Maximise your staff** – think about things such as: reviewing shifts and working hours, changing or combining roles to get better efficiency, changing who works with whom, and building supervisory skills that can release new efficiencies and productivity, training your staff so they can reach their full potential, looking at the ebb and flow of workloads, doing a skills audit – often staff can do things you just have no idea about, building teams and staff feedback, training all staff in customer service and product knowledge particularly about what *your* business has to offer and what your *area* has to offer – this raises perceptions of how good your business is and encourages customers to return to the area in the future.
- **Improve your marketing** – commit a minimum of two hours a week to marketing opportunities and stick to your commitment, track all responses, check the performance of your marketing activities so you know what works and what doesn't, be more targeted, target new customers, encourage repeat business, update your website, work on your customer relationship management CRM, network. (*refer to How To Marketing guides*)

Business Link offers an interactive tool that helps you analyse key areas of your business' operations with the aim of improving performance and managing cash flow. The tool can help you work out how to overcome financial or operational problems that your business may be facing, and also explains how you might prepare your business for future growth.

Visit: [www.businesslink.gov.uk](http://www.businesslink.gov.uk), and search 'assess your business' performance'

This section in Business Link also covers ways of encouraging customers to pay on time, late payments, and debt recovery.

## 5. Get your tax right

Your financial advisor or accountant will advise you on business tax issues.

HMRC ([www.hmrc.gov.uk](http://www.hmrc.gov.uk)) also has a useful section on 'getting your income tax right' and gives advice on:

- Registering a new business
- Filing a company tax return
- Income tax rates and thresholds
- Setting up as a limited company
- Paying corporation tax
- Paying VAT

## 6. Dealing with finances in difficult economic times

Challenging economic times can bring unexpected benefits as they force businesses to be leaner and more productive. This could have major pay-offs once the downturn is over, as profits and productivity will be correspondingly higher. Here are some suggestions for ensuring that you are operating as effectively as possible:

- **Assess costs and suppliers** – when money gets tighter there are two solutions: sell more and cut costs. Cutting costs has the added benefit of reducing how much cash your business needs to stay functioning. If you can reduce your overheads and reduce your cost of sales, then you'll get even more benefit out of selling more.
- **Involve staff** – cost cutting must be seen in a positive light, with everyone in the business helping to make it leaner and more effective. Without good communication, staff may conclude from your cost cutting exercise that the business is in trouble. Involve staff as much as possible and ensure that every member feels that they are doing their bit to help cut waste and unnecessary costs.

- **Suggestions for cutting costs** – go through your cash flow methodically and identify the major cost areas, breaking them down into individual cost items; look at each area of cost – try to be as inventive as possible.
- **Utilities** – look at phone, internet, gas and electricity suppliers – can you get combined packages for lower cost? Significant cost savings can also be made by small measures, e.g. using energy saving light-bulbs, using solar lighting outside, lowering thermostats on your heating and hot water, turning off lights etc.
- **Raw materials and stock** – look especially hard at ordering and waste – see what’s being thrown away or reaching its sell by date; look at portion control and more efficient menu planning to conserve waste and use seasonal, cheaper ingredients etc.
- **Other cost areas** – look at all your cost lines and see what alternatives or savings can be made, and ask yourself whether all costs are strictly necessary, e.g. are there cheaper ways to revamp your website than redesigning it? Do you have to produce printed stationery or literature or can you make do with print-on-demand, electronic literature or smaller brochures and flyers?
- **Evaluate and negotiate with suppliers** – look at alternative suppliers and check out other costings. Can you order differently – different goods, different ordering patterns or frequencies, smaller or bigger quantities etc.
- **Look at your professional services** – are you paying too much for accountants, solicitors, media agencies or other consultants. Can you bring some activities back in-house?
- **Shop around, attend trade fairs and buy seasonally** – harder economic times drive better bargains, so don’t just keep on buying the same old things. Attend trade fairs for the latest deals and advice. Ask for discounts on new and second hand purchases and buy seasonally. Planning menus seasonally means you take advantage of cheaper raw ingredients.
- **Raise quality and value** – it’s tempting to think that to win more customers during an economic crisis you need to cut prices. Certainly offers and promotions go down well, but lowering prices isn’t always the answer. Low prices can imply low quality, true customers like a bargain and the definition of a bargain is great value. Value is more important than price. Customers won’t always go for the cheapest, they’ll go for the best experience they can get for the money. Value is particularly important during leaner times because customers weigh the benefits of every pound they spend more closely.

Raising quality is one way to add value and it also makes you more competitive. In a tougher economy there is more competition – the same number of businesses competing for fewer sales. Only the ones offering great experiences at good prices will win.

- **Raising the level of customer service** – raising the level of service your staff provide is a fantastic way to raise quality. It can have many spin off benefits, e.g. better customer perceptions and a better customer experience resulting in repeat business and positive word-of-mouth promotions.

The businesses that come out on top during an economic downturn are the ones who avoid the tendency to go into lock-down and shy away from risk. Although you should be doing everything you can to cut wasteful expenditure, making investment in solid products and using innovation to create new services, new packages or to tap into an emerging market can put you into a strong position.

## 7. Contingency planning

From time to time events occur that are utterly beyond our control, e.g. fire, flood, loss of power, loss of IT or data, extreme weather damage, personal injury or health.

While it isn't possible to wholly prevent such incidents, you can prepare for them. This is called contingency planning. Part of contingency planning is to identify ways of preventing or minimising damage, and part is to formulate a disaster recovery plan – a clear path to getting back on your feet if it does happen.

Contingency planning doesn't have to be difficult, onerous or expensive, but the benefits are huge, e.g. increased safety for staff and customers, less business disruption, less damage or loss, faster recovery, better staff, supplier and customer relations.

There are seven steps to successful contingency planning:

- **Identify the hazards** – which hazards should you prepare for? This will depend on the type of business you operate, the market you operate in, your physical location and specific dependencies.
- **Prepare for the major risks** – you only need to plan for a risk if it is mandatory, e.g. fire risk assessments and health and safety assessments or if it is a major risk. You can define a major risk as: likely to happen, e.g. flooding if you are near a river; or there is some likelihood of it happening and the negative impact would be very great, e.g. someone you rely on greatly gets ill, injured or leaves. You will need a separate plan for each major risk.
- **Assess the risks** – for each major hazard you need to identify all the ways in which this event could endanger your staff, customers, premises, stock and business. In each case there are two areas to consider: the causes of the hazard, e.g. a flood could be caused by a river breaking its banks and also by a burst pipe or a tap left running, and the impact of the hazard taking place, e.g. if there was a flood what or who could get damaged?

Start by assessing the causes of a hazard before you move onto the impact. For each cause and impact you need to: identify how likely it is to happen, identify what or who would be affected and how great the damage would be, find control measures to minimise or remove the cause or impact, decide when to put these controls into place, decide who needs to know.

To find and assess hazards you will need to: think creatively and laterally, do a physical walk around to find causes, do a physical walk around to imagine the impacts, keep in mind who or what could be a cause or get damaged.

Although you need to look at all hazards, focus on the biggest risks. These are those that are most likely to happen and those that will have the biggest negative impact on your business.

- **Minimise the risks** – When you have identified all the possible causes and impacts, you need to find control measures to minimise or remove the risk.

Control measures can take all kinds of forms. You can: put in early warning measures, e.g. regular monitoring of flood warnings, change the way you do things, e.g. storing valuable goods on a first floor or moving a kitchen to a first floor, use alternatives, e.g. use plastic pipes instead of copper ones, use protection, e.g. use a waterproof safe box for backup disks, insure – choose insurance so you can replace or reimburse quickly.

Put a timescale on the control measure – say when it should be in place. And remember to identify who needs to know.

- **Plan (for safety) – crisis management** – once you've identified hazards and control measures, turn this into a plan and remember to keep copies away from your premises. The plan sets out your steps to monitor hazards, control them and keep staff, customers, stock or premises safe. It must also detail exactly what steps must be taken, by whom, if the risks escalate or the hazard unfolds. Keep everyone informed and have a clear plan for communicating with those that need to know.
- **Plan for recovery** – if the hazard actually happens, once you have dealt with the crisis you need a plan for getting back to business as fast as possible. Again, keep copies of this plan off-site. Imagine the disaster has hit, remind yourself of the possible impacts, then think through the steps you'll have to take to get your business going again. Try to be logical and deal with the priorities first, and remember that safety is right at the top of the list.

For example, if your hotel, restaurant or attraction becomes flooded you'll need to: ensure the building is structurally sound, assess the damage and make an inventory of repairs and replacements, clear rubbish and detritus and dehumidify, deep clean the interior and clean up the exterior and landscape, repair electrical damage, repair and decorate damaged areas inside and out, replace damaged furnishings, furniture and equipment, replace food

and non-food stocks, replace plants and car park surfaces/gravel, etc, repair signage, prepare for re-launch.

Make a list of contacts who you would call on to help you get up and running again.

- **Practice** - Practice your plans in exactly the same way you practice a fire drill. This is especially important for hazards that affect the safety of staff and customers.
- **Monitor and review** – All plans go out of date, sometimes quickly. How often you need to review your plan, and which aspects you need to monitor depend on the hazard. For example, for flooding you probably only need to review the plan every couple of years, but monitor flood warnings much more frequently, especially in times of heavy rain. For customer data, you probably need to review the plan at least annually, if not six monthly, because technology moves quickly and the places you collect customer data from change frequently.
- **Insurance** – for major risks, those most likely to happen and those that would have the greatest negative impact, you should look into insurance. Check with an insurance broker.
- **Media relations** – if disaster strikes, you may not be thinking very much about press releases and advertising, but it is highly recommended that you write this into your plan. When the event occurs, immediately put a positively worded outgoing answer phone message and an email auto-reply together. Put in contact details where people can get hold of you if they really need to. And, as soon as the recovery process begins, start sending out good news PR notices – focus on the good news and human interest aspects, e.g. the hard work and commitment of staff, suppliers going above and beyond the call of duty, the amazing speed of the recovery, the excellent support of the emergency services.

Refer also to 'contingency plans' on Business Link: [www.businesslink.gov.uk](http://www.businesslink.gov.uk)

## 8. Online bookings/selling online

Online booking is certainly the preferred option for the majority of visitors these days. If customers visit a website and find they are unable to make a booking there and then, it is likely they will turn to another website that does accept online bookings.

Guests can book their stay without leaving their home or picking up the telephone, and you will benefit from the increased ease of service with a greater volume of bookings.

Managing your bookings online minimises paperwork and increases efficiency. Customers will benefit from increased speed and simplicity of booking online and will be able to print receipts automatically generated by the system. This should streamline your paperwork and help prevent double or lost bookings.

An online booking system will help open your business up to new markets, but should not replace other booking practices altogether. Be sure that you still have someone available to answer any telephone queries so that you can supplement your online bookings with more traditional reservations.

If you are a start-up and creating a new website, you really should consider an online booking system – check out options with your web provider. As well as providing you with a strong online presence, a website is a great medium for managing online bookings. Ensure that copy on the website actively directs visitors to the bookings section and outlines the benefits of booking online.

And, if you have an existing website, think about adding an online booking and payment solution to your current functionality. Most websites are flexible enough for online booking facilities to be added without much difficulty – suppliers are likely to use either an out-of-the-box solution, or create something bespoke.

Alternatively, there are a variety of third party online booking services available, many of which have been created specifically for tourism businesses.

For any transactions that are made online, including bookings and selling products, make sure you familiarise yourself with the set of acts and regulations that apply to online selling and the sending of promotional emails etc. When a customer buys electronically or by mail order, they cannot see the goods and try them out first, so, in addition to their usual statutory rights they are given extra protection in order to:

- Make sure they don't accidentally enter into a contract to buy without realising it
- Make sure they understand the contract they are getting into – the terms and conditions attached to what they are buying
- Make sure they can cancel their order or return their goods if, once they see and examine their purchases, they decide they don't want them.

All these consumer rights, and your corresponding obligations as a trader, are set out within specific acts and regulations. Business Link dedicate a whole section to 'Creating an online shop' and you can familiarise yourself with the relevant online selling legislation at [Business Link](#)

## 9. Taking payments

To get the most sales from customers you want the least barriers. Your payment options are a big part of this. Cash and cheques are fine for really committed customers or customers who are actually present, but unless you also take debit and credit cards, online booking and no-card online booking, you're missing out on a huge chunk of customers.

Payment options:

- **Cash** – cash is still a popular way to pay at many types of business. For many smaller attractions, food and drink establishments and smaller shops, cash is still the main way to pay. It is far less of a feature in accommodation businesses (especially self-catering) and bigger attractions, food and drink establishments, shops, activity centres and tour guides.
- **Cheques** – While it is becoming quite commonplace to see signs along the lines of *‘as from xxx we will no longer be accepting cheques’*, they are actually still a popular way to pay, and essential if you don’t take cards for both distance and customer present purchases.
- **Direct bank payments** – enabling the customer to pay directly into your bank account is a good idea. You simply supply them with your bank details and they make the payment directly from their own account. Quicker than a cheque, it is also perceived as safer than paying online with a credit card by some customers.
- **Credit and debit cards** – credit and debit cards are an extremely popular way to pay for both in-person and distance purchases. There are lots of positives for the customer, i.e. no need to carry cash, no need to go to the bank first for large purchases, no need to write cheques, instant credit for large items that otherwise might not be afforded, easy remote payment, easy international transactions. And also for the seller, i.e. removes the need to handle and store cash or bank cheques, payment is received faster, makes impulse buying possible, lowers barriers to distance selling, lowers barriers to international selling.
- **Setting up to take credit and debit cards** – if you want to take cards you will need to set up a merchant account, and, for online or distance payments you will need an additional account. Setting up a merchant account involves applying to the bank for an account, negotiating costs, deciding which cards to take, renting a PDQ, obtaining a second phone line for your PDQ terminal, and setting up the equipment.

For more information about setting up a merchant account you can talk to: Elavon – [www.elavon.co.uk](http://www.elavon.co.uk) - a merchant services provider, compare the costs of different providers on [www.electronic-payments.co.uk](http://www.electronic-payments.co.uk), and find out about a contact-less way of taking small card payments on [www.streamline.com](http://www.streamline.com).

- **Taking payments online and by mail order** – for very many businesses (except possibly food and drink businesses) it is essential for customers to be able to buy and pay online. Options include:

**An online merchant account** – this is similar to a merchant account for taking credit/debit cards in person, but online. These accounts are provided by major high street banks and, as the customer isn’t present, there is perceived to be an increased risk of fraud so checks involved in granting an online merchant account are quite stringent. There are also set up

fees and monthly charges. In addition, you still need a Payment Service Provider (in the same way that you have to rent a PDQ when you have a regular Merchant Account) to actually provide the technology for taking the payments online and passing the request to your bank for processing.

**Payment Service Provider (PSP)** – these organisations actually provide the technology to take the payment online and pass it to the banks for ‘clearing’. However, many PSPs also provide online merchant accounts, thereby becoming a one-stop-shop provider. This service is faster to set up and often involves lower overall fees, though the per transaction charges can be higher. PSPs include: WorldPay, PayPal, NoChex, and Google Checkout.

**Payment Bureau** – this is where you use a bureau to actually conduct the transaction, just as when you use PayPal to buy something from ebay. The buyer agrees to purchase on your site, then clicks the ‘Pay Now’ button. This transfers the buyer to the bureau’s site. The buyer pays the bureau – and is then returned to your site – and the bureau pays you. Bureau services are usually very quick to set up, have no set-up or monthly charges and fairly low transaction charges. Added fraud protection and reduced chargeback fees can be an advantage. Some customers prefer them because the seller never sees their card details. The disadvantages are that you have to wait longer for your money and it’s a less professional service because you clearly don’t have your ‘own’ payment processes.

**ePDQs** – these are ‘virtual’ PDQ machines. They don’t allow you to take real-time online payments at your website, but they do allow you to take bookings and orders over the phone, by email or by fax. Then, using your web browser, you type in the card and account holder details, which are then authorised in the same way as swiping through a real PDQ. You cannot take bookings in person.

**Offline payment** – this is a relatively new way of paying online. It allows the user to agree to buy online, but pay offline using a card or cash. When the purchaser agrees to buy, they enter into a transaction and print a bar-coded receipt. They then take this receipt along to any PayPoint (there are 17,000 across the UK), the barcode is scanned and the customer pays. Find out more at [www.payoffline.com](http://www.payoffline.com)

Refer also to the section on Business Link: ‘distance selling an online trading’ for more information – [www.businesslink.gov.uk](http://www.businesslink.gov.uk)

## 10. Get expert financial help

Businesses frequently need to seek expert financial help from an accountant or business advisor. Ask colleagues and friends for advice on reputable financial contacts, attend local networking meetings, or search the Business Link ‘contacts’ directory for financial contacts within a certain distance of your postcode – [www.businesslink.gov.uk](http://www.businesslink.gov.uk)

Here is a list of websites for further reference on the financial aspects of running a business:

- Business Link: [www.businesslink.gov.uk](http://www.businesslink.gov.uk)
- HMRC: [www.hmrc.gov.uk](http://www.hmrc.gov.uk)
- Your local authority: [www.direct.gov.uk](http://www.direct.gov.uk)
- Chambers of Commerce: [www.britishchambers.org.uk](http://www.britishchambers.org.uk)
- Electronic payments comparison site: [www.electronic-payments.co.uk](http://www.electronic-payments.co.uk)
- Making offline payments: [www.payoffline.com](http://www.payoffline.com)
- The Office of Fair Trading: [www.oft.gov.uk](http://www.oft.gov.uk)
- The Trading Standards Institute: [www.tradingstandards.gov.uk](http://www.tradingstandards.gov.uk)