

topical tips

Issue 23 Winter 2002 Starting a business in the creative industries

Starting a business in the creative industries

There are few barriers to entry in the creative world and many people have tried to start a creative business. Those who succeed have a clarity of purpose, strong belief in themselves and a great offer which sets them apart from their peers. If your business is to be successful it must be supported by strong foundations. Ultimately this will involve the following steps.

Having a good idea

Researching and understanding the market

Having a good business idea and research

It doesn't have to be a new idea but it does have to have something: creative edge, expertise, technology, service delivery or location which distinguishes it from the competition. This means you will need to look at your market and consider:

- How big is it?
- What are the prospects for growth?
- Who is the competition and how will you compare?
- What are the barriers to entry?

Also, speak to as many people as you can. If there is a business in a similar line of trade, which has recently started, try and talk to them. They will usually be happy to share their experiences. Take professional advice where areas fall outside your own expertise.

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Having a good idea

Researching and understanding the market

Assemble your winning team

You will now be ready to consider what resources you need to put in place to bring your idea to life. First, the management team. Consider what skills you need to achieve your goal, such as:

- Creativity/technical expertise;
- Marketing, client winning and servicing;
- Finance and administration;
- Technology.

Initially, there may be gaps in the ideal team. You can outsource financial advice, technology skills, new business and even creative work if need be. In doing so, the quality is what really counts.

Having identified the right people it is important to look at how difficult it will be to attract them and what package you should offer. If they do agree to take a risk and join you what are the legal barriers you need to overcome? These can be considerable, and fighting injunctions at the start is not going to help matters. In this area it is wise to take good legal advice at an early stage in order to reduce the risk of legal action.

Sort out your systems

Major equipment needs are likely to be your next main decision as you will want to get 'up and running' as fast as possible. Your main equipment consideration is likely to be IT, for example:

- What platform will you run on?
- Should you consider mobile technology?
- What are you used to and what will be compatible with your clients' needs?

Much can be outsourced including office packages, accounting, email and web. Remember any database will need to comply with the Data Protection Act.

IT hardware and software

There are many issues and pitfalls awaiting the uninitiated in this complex area and if you are coming from a large agency/group, you may have been lulled into a false sense of just how much effort has to go into providing everyone with a fully serviced desk, PC, telephone and mobile. You need to understand the options and costs in all these areas and make sure you don't get locked into inappropriate systems whilst you have seemingly bigger fish to fry - like winning new accounts. Typical areas which need attention are:

- Cabling design, choice of cabling contractor
- Project managing architects and cabling contractors
- Network design and purchase
- Communications options
- Telephone switch options and growth path
- Mobile phone options and choice of tariff
- Accounting and job costing software
- Presentation suit options
- Mobile communications and remote access
- Email and diary

- Organised filing
- Systems security, firewalls and backups

Your business plan

All your ideas need to be distilled into a business plan to focus them into a blueprint for the business. If you need to raise money this will be the document you use. The key contents of a business plan are:

1. Introduction/Executive summary;
2. A description of the business and market opportunity;
3. A description of the management and resources;
4. Summary financial projections;
5. Appendices:
 - Awards and press cuttings;
 - CVs;
 - Detailed financial projections.

Forecasting

The financial projections can often take on a mystical quality in the eyes of entrepreneurs who have not previously had to prepare them. They shouldn't. The plan is merely a way of documenting the financial implications of all the decisions taken and looking at the cash result of those assumptions. Business planning in conjunction with financial forecasting is an iterative process. Having made all the assumptions above, and estimated the price tag that comes with them, it is a relatively easy matter to translate that into projected financial results. These should include profit forecasts and cash forecasts. There can be a significant difference between these two, especially when buying expensive assets with cash, as this expenditure does not get charged against profits. There can also be significant timing differences between cash and profits, for example, VAT and rent are usually paid quarterly.

Predicting costs is more certain than predicting income. It is important to assess the sensitivity of the forecasts to changes in income, or any other area which is likely to change.

Finding the funds

Knowing how much cash you need is one thing. Finding it is another. Firstly, you need to establish what the founding team can raise and what proportion of the business each wants. You should also consider whether you are prepared to allow external funders to become shareholders as a way of financing the business. Will a high street bank lend some money and to what extent will you be able to persuade clients to fund your business by paying in advance?

The broad rule of thumb is that banks will not put more into a business than the management has. They do not like to feel more at risk than the management team. For this reason some, but not all, will ask for directors' personal guarantees as a matter of course. These should be avoided if possible.

If more is needed to start the business than can be raised by the founders and from a bank there are two main routes to consider: trade investors and private individuals. Trade investors generally like a majority (more than 50%) stake in the business and the option to acquire the rest. Individuals who know the founders are far more likely to invest than strangers. But there are organisations such as National Business Angels Network which bring together investors and businesses seeking investment. Government grants are also available in some circumstances.

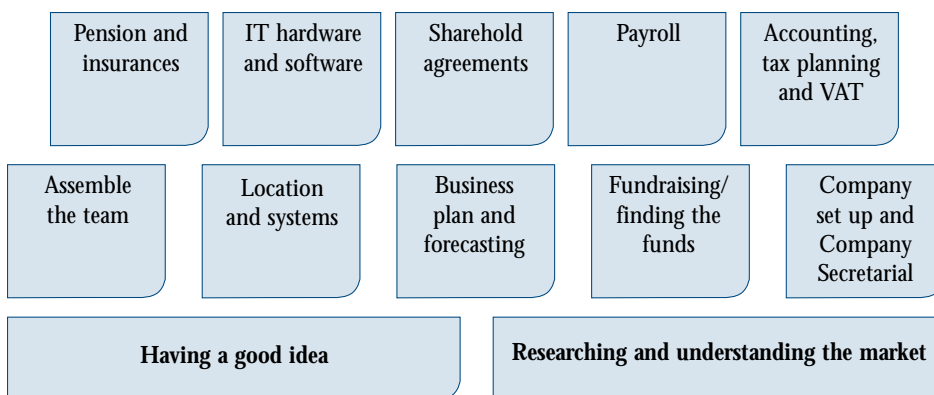
Get set up

Once the finance has been sorted out you need to decide on a business structure. Should it be a company or a partnership? Your decision will depend on where you want to trade, how risky your business is, what funding you need, your attitude to privacy and what the marketplace expects. A professional adviser can give guidance on the best route for you.

There are then various registrations and regulations to be compiled with. One important one is choosing and registering a name. If you have a company you will need to choose a name no-one else has. You should register the name in the UK and if you intend to trade abroad, there as well.

Building the business

Once the business is up and running you need to concentrate on what you do best, winning new clients and servicing the business. But you might need help to concentrate on doing this by appointing someone to take care of some of the following areas (see diagram below):



IT

As a young business, you need to find a way to deal with IT issues, particularly in managing strategy, projects and running a helpdesk to maintain the equipment and keep everything working. At the very least you will need to find support on:

- Market developments and new opportunities
- Strategy, budget, and systems integration – key to developing a pro-active IT policy
- Management systems and how to create integrated IT solutions, rather than isolated functions
- Consistent supplier policy - not a series of one-off purchases
- Effective and co-ordinated purchasing.

Tax responsibilities and tax planning

Tax can appear to be a minefield. So make sure early on that you understand which taxes the business may be liable for. This will depend on

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what business structure you choose, the size of the business and whether it is profitable. There are a number of issues you will need to address:

- Should you register for VAT?
- Do you qualify for special smaller business schemes?
- How can you structure remuneration packages tax efficiently?
- Would a company pension scheme be a good idea?

Understanding the difference between employees and freelancers from the outset is important. The tax treatment of each is different and this is an area where creative businesses are often caught out. In short, tax is a complex area and you should seek specialist advice.

Accounting and payroll

Ensure that from the start you retain orderly accounting records. This will set you up for when the business expands and will keep you disciplined. Decide whether the day to day accounting and payroll will be done in house – or whether it would be more effective to outsource this until the business is larger.

Ongoing financial management

Good financial management of a company can be the difference between success or failure. Cash is key. Even if you are making profits, it is imperative that you have your eye on the ball when it comes to managing cash flows and making sure the business has enough working capital. Make sure management accounts are prepared regularly (preferably monthly) so that you know exactly what position the company is in – if you have borrowed money the lender will want to see these. You should always look ahead at your cash requirements – forewarned is forearmed – your bank manager will be

more willing to extend facilities if you can demonstrate that you know what to expect. Ensure that you have good relationship with your bank manager – you may need his support through a rough patch.

Non-executive directors

As the business grows you may welcome help from people who have been there and done it.

Insurances and pensions

Protecting your assets is important too. There is a suite of insurances which need to be considered both in relation to physical assets but also in the areas of health and safety, professional indemnity and credit protection. You can also consider Life Insurance, Critical Illness and Key Man Insurance as well as Shareholder Protection Insurance. A good Independent Financial Adviser will be able to help steer you through all this.

By law you must offer a Stakeholder Pension Scheme once you have more than four employees. Again, taking advice from a good independent pension adviser will help you to implement this in an appropriate way.

Conclusion

Starting a business is one of the most exciting, challenging and sometimes scary decisions you can take. If it works, it is one of the most rewarding. Good financial management and infrastructure are critical in the first period of a business's life. Willott Kingston Smith has a comprehensive start up support package called Kick Start. It will help you concentrate on what you're best at.

For further information about setting up a business in the creative industries, please contact Amanda Merron, Cliff Ireton or Esther Bannister on 020 7304 4646.



West End Quadrant House (Air Street entrance),
80-82 Regent Street, London W1B 5RP
Telephone 020 7304 4646

City Devonshire House, 60 Goswell Road,
London EC1M 7AD Telephone 020 7566 4000

Hayes Middlesex House, 800 Uxbridge Road, Hayes,
Middlesex UB4 ORS Telephone 020 8848 5500

Redhill Surrey House, 36-44 High Street, Redhill,
Surrey RH1 1RH Telephone 01737 779000

Romford Orbital House, 20 Eastern Road, Romford,
Essex RM1 3DP Telephone 01708 759759

St. Albans 105 St. Peter's Street, St. Albans, Herts
AL1 3EJ Telephone 01727 896000

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