

# CHAPTER SEVEN



*Dealing with Money*

*“Money is the lifeblood of any business. Getting the numbers right is essential.”*



**T**hey say that cash is king and it's certainly true that money is the lifeblood of any business, whether a start-up or a multinational corporation. Getting the numbers right is essential, because even very successful businesses with large revenues have come unstuck because cash wasn't in the bank when it was needed.

Money is also the mark of success in business: if there's more coming in than going out, it's cause for celebration. The reverse is cause for a return to the drawing board.

But there are numerous other ways in which companies are impacted by money, whether it's getting paid on time or moving money on to HMRC in the form of corporation tax, VAT, National Insurance contributions or capital gains tax.

You need to carefully manage cash flow, payroll, surpluses and debts in such a way that your business is free to grow without being weighed down by financial considerations. This chapter is all about organising your cash so it works for you and not against you.

*Don't forget the great finance apps we looked at in chapter 5 when discussing tech and systems that can help you. (See page 79 onwards.)*

"I ensure all potential customers are aware of my daily rate and that a long job can reach a four-figure amount during my initial visit. To support this my final written estimates are very detailed. It gives the customer confidence because they know specifically what I will work on. It also acts as my job sheet.

"Ninety to 95% of my jobs have been completed within my estimated time frame. Ensuring that the calendar is full of work means that I can pay my bills, including to our dear HMRC!"



**– Jane Pennock, Us Girls Decorating Ltd**

# ***SUCCESS STORIES***



**Name:** Jane Pennock

**Business name:** Us Girls Decorating

**Type of business:** Painting and decorating

**Number of employees:** 1

## **How did you get started in your trade?**

“I got started with a change of career. I spent 23 years in retail as a designer with a clothing company. Towards the end I set up an office at home and started working for myself remotely. At the same time, I set up a small company for painting and decorating – just for small jobs just to keep me going. It went from there.”

## **Has the business changed since you started?**

“I have learned a lot since setting up the business. I grew in confidence with wallpapering and my work in general. I didn’t go to evening classes, so these were life skills.”

## **Describe your typical customer and project.**

“My typical customers are households. It’s only me, so I stick to local jobs which I can do really well. I turn away work which is too big, it’s important to be honest about that.”

## **What do you enjoy about your career?**

“It’s a hard slog going through it on your own, but then you see the end product, which is incredibly fulfilling. You can see how much it means to people when you have done a great job for them.”

**What's the hardest thing about it, or the biggest challenge you face?**

"Trying to grow the business is hard. I employed someone for a time and the cost is quite high, because it's manual work and you can't pay a pittance. Teaching the skills while working on the job is tricky. You have to tick all the right boxes legally, which takes time, yet you can't raise your prices to account for that."

**What are your plans for the future?**

"I just want to keep doing good work and see more smiling faces at the end of each job. I love going the extra mile and even tidying up work that other tradespeople have left in a mess. It's very satisfying."

**What's your best tip for other tradespeople in your sector?**

"The customer comes first. You are in their home so treat them the way you want to be treated. Don't go home leaving a dirty workplace behind you! Make it livable. Be a good communicator, but also show them that you care."




# GETTING PAID

You can't manage your money if there's nothing in your bank account, so getting paid is the first step to financial peace of mind. Sadly, payment is a prickly issue for small businesses and late or non-payment is responsible for thousands of business insolvencies each year.

According to research firm Dun & Bradstreet, the average small or medium-sized business is owed £63,881 in late payments. Its survey of 500 companies with between two and 250 employees found that 35% of them had cash flow problems as a result.

Just over 10% were owed between £100,000 and £250,000, while a whopping 51% said the problem of late payment was getting worse. Most seriously of all, almost six in ten respondents said it was putting their business at risk of failure.



"People weren't paying on time so we adopted a policy of charging a material cost of 10% at the start of the job. An invoice is sent out on completion with payment due within five days. A gentle reminder is then subsequently sent out as a prompt.

"I feel it is important to have a professional, properly drawn up policy. This is an area that we are currently looking into, including subcontractors' terms and conditions, privacy policy, payment terms, acceptance of work contract and employment contracts."

**– Chris Jones, LSW Decorating Ltd**

Officially, businesses that are owed money can claim interest and charge for debt recovery costs if payment isn't forthcoming within a set period of time. But few businesses invoke the law because they don't want to sour relationships with treasured customers.

So if legal action isn't an option for you, what are the alternatives? Good payment practice can increase your chances of being paid on time and reduce the impact of late payment on your business.

## ***1. Be clear about your terms from the start***

It's tempting to ignore the practicalities of payment just after you have won a juicy contract. But being clear and transparent (in a friendly way) about how and when you'd like to be paid increases your chances of a positive outcome.

## ***2. Invoice ASAP***

Too many small businesses are laid back about invoicing. It's important to submit invoices at the earliest possible opportunity instead of giving a customer an easy excuse to delay settlement. That could mean filing before work is completed, especially if you have invested money in a project and payment terms are 30 days or more.

Always accompany an early invoice with an explanation that reassures the customer, such as *"I'm popping this over while I remember"* or *"I'm doing the company accounts and wanted to ensure you got this on time"* or *"I just wanted you to have this in the system, no need to settle early"*.

Many organisations have arbitrary payment schedules, meaning that if you write 30 days on your invoice, payment will arrive in 30 days regardless whether it is submitted early or six months late. Handing an invoice in early means the ball is in their court, not yours.

*"I approach every job in a professional manner, which means customers understand that I want them to act in a similar way when it comes to paying me on time. I introduce payment terms early on, even before we have agreed on the job during the consultation phase, because then they understand the terms and are far more likely to stick to them."*



**– Wayne de Wet, Wayne de Wet Painting and Decorating Services**

## ***3. Calculate costs on the fly***

By keeping a running total of your costs while carrying out the work, it'll be easy to add them in when the time comes to invoice. Trying to

remember everything at the end, plus adding it all up, just increases the time it takes to get your invoice out the door.

## ***4. Invest in a card payment machine***

In the modern world of electronic payments, cash is slipping down the pecking order as a preferred way to settle bills. People are increasingly turning to card payments – including contactless ones.

A great way to ensure you get paid on time more regularly is to offer card payment services at the end of a project. This is particularly useful for smaller domestic jobs lasting up to a day. The service isn't complicated and a growing number of tech companies offer simple card readers without the need to take on a merchant account or an expensive PDQ (process data quickly) machine rental.

iZettle is one member of this new breed. At the time of writing you can pick up an easy-to-use card reader, incorporating contactless and mobile payments, for under £30 and it simply charges 1.75% for every card transaction you put through.

iZettle competes with companies like Square (a US-based company that recently extended to the UK), SumUp, PayPal Here and WorldPay Zinc. Each option comes with its own pluses, minuses and different fee structure. Have a look around and see what's best for your business.

## ***5. Don't make mistakes on invoices***

An invoice contains a lot of precise and important information, so it's not surprising that errors occasionally creep in. It's a real pain for all sides when a customer comes to pay an invoice but has to go back to the supplier and ask for details to be fixed.

A good invoice includes the following (accurate) information:

- business name, logo, registered address and company number
- your customer's name and address (make sure the name quoted is the person paying)



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- details of the service (or products) you have supplied
- if applicable, a purchase order number or related reference
- the amount due and the date it should be paid by (and the date the invoice is being sent)
- VAT details, if you are registered (remember to add 20% to the bill)
- payment options.

Ensure that all these points are written clearly and accurately, because a mistake anywhere could lead to a delay.

## 6. Follow up

Don't let a customer put your invoice to the back of their mind. It's generally a good idea to schedule a friendly reminder over email if your payment terms have elapsed and money is not forthcoming. Again, adopt a friendly tone. It's possible that a clerical error has caused the delay and that the customer has no qualms about paying. You could try something like the following:

Dear \_\_\_\_\_

*Thanks again for the contract. The team really enjoyed working with you on the project and we're keen to do so again in future.*

*Would you mind checking with your accounts team to see if our invoice is going through OK? Am sure everything is on track, but I wanted to circle back just in case it has been mislaid.*

*All the best,*

\_\_\_\_\_

It's perfectly acceptable to give someone a nudge in this way and 99% of customers will respond positively, perhaps even apologetically, when they realise they are late. Keep the conversation going until the money is safely in the bank and don't threaten punitive action unless you absolutely have to.

# MANAGING CASH FLOW

Maintaining cash flow is one of the trickier aspects of running a business, especially if much of the trade is seasonal. You have to balance boom months with lean times and ensure that bills are settled and salary commitments are met.

One of the best ways to ensure money flows thick and fast through your bank account is to follow the advice above on invoicing best practice. But there are a few other useful methods besides being timely with payment demands.

## *Focus on cash flow*

Cash flow is subtly different to sales or profits and it could be argued that ignoring the latter in favour of the former will shore up your business as it grows. Cash flow refers to money arriving in your bank account, something that isn't guaranteed with a sale. People celebrate a signature on a purchase order, but really those celebrations should be postponed until the money is in their hands.

If income is patchy and you don't feel that payments are coming in a reliable pattern, save a war chest of (ideally) three months' salaries. This will take pressure off the constant money flow and will provide a much-needed reserve if, for whatever reason, there's a dry spell.

## *Set a cash flow forecast*

It's surprising how much easier it is to steer your business away from financial trouble if you understand what money is coming in and going out in the next six months. Predicting your finances, based on credits and debits now and in the



future, brings clarity to the question of whether you can spend or should save to avoid hot water down the line.

### ***Make payments as easy as possible***

Gone are the days when cash-in-hand was the default method of payment for tradespeople. But more to the point, you'll need to give some options to customers if you want your business to grow. Electronic payments are best because there's a clear record of payment and no chance – unlike with cash or cheques – that money will be lost in transit to the bank.

Better yet, if you're in a position to do so, offer fixed-term payment packages delivered from the customer's account via a standing order or direct debit. This method is especially relevant to businesses with a service involving regular upkeep, such as cleaners and gardeners.

You could come up with a list of three itemised packages, each at a different price point and listing exactly what the customer will get and when in each case. Combine this with your customer relationship management (CRM) system to fill your schedule with regular dependable appointments and payments.

### ***Use technology***

The digital revolution makes cash flow management much easier than the old days of spreadsheets and pencils. The Cloud helps businesses handle information across teams. It means information (financial information in this case) can be updated in one place and viewed by someone in a different location, presuming they have access to the software. The facts and figures are updated for everyone, everywhere.

People no longer have to store information all in one place and go there to access it. This saves time and enables teams to work faster and keep a closer eye on finances, even from a smartphone.

## ***Keep the bank onside***

It's true that banking relationships aren't what they used to be. Gone are the days when a business could expect to see the same friendly faces every time they visited their bank manager. But this doesn't mean relationships are no longer important.

Banks, along with all other public-facing institutions, keep a record of their dealings with customers. Calls are often recorded, but more importantly every time you make a request or seek a change to your banking setup, information will be added to your file.

Banks love communication and they particularly appreciate being kept in the loop when customers start to get into difficulties. By keeping up the conversation, you'll inspire trust in your banking provider and they will be more likely to help (maybe with a loan or overdraft facility) if cash flow issues arise.

## ***Give someone responsibility for the numbers***

For extra financial security, train a member of staff to monitor incoming and outgoing payments and to report back regularly, especially if there is cause for concern. By allocating the role and providing training, you can reduce the risk of falling into the red while providing a valued employee with additional responsibility.



"To help customers pay, we have secured backing from Barclays bank to offer finance packages."

**– Alan Gough, Warmglow Home Improvements Ltd**

# **ACCOUNTANCY AND TAX**

Tax is never a popular part of doing business, but along with paperwork it is a reality that all entrepreneurs must face. As you no doubt already know, tax is money taken by the government each time

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a transaction occurs; how much tax is paid depends on a complex system of variables.

There are various forms of tax affecting people and businesses – and these levies must be paid periodically throughout the year, otherwise you'll start to receive red letters through the door and, ultimately, visits from a bailiff.

The simplest tax structure is reserved for sole traders who haven't incorporated into limited businesses. These 'freelancers' simply charge a fee, accept payment into a bank account and then calculate how much tax they need to pay at the end of each year.

But it doesn't take much for the tax picture to become a lot more complicated. Growth, recruitment, profits and value added tax (VAT) registration all have a major impact. Here are some of the most common taxes a business might have to deal with:

- **Corporation tax:** Paid on business profits. There are different rates for small and big businesses – the rates change frequently.
- **VAT:** Businesses qualifying for VAT must charge 20% on all invoices and pass the money on to HMRC on a quarterly basis. In many cases businesses can claim VAT on purchases back from the Treasury.
- **Income tax:** Paid by individuals on income derived from salaries. In most cases the tax is lifted from pay packets before employees receive them.
- **National Insurance:** Paid by workers and employers to help fund state benefits, most notably the state pension. Employees have to earn above a certain threshold before they start paying.
- **Capital gains:** Affects transactions in which someone makes a profit on the purchase price or cost of the thing being sold. Business owners pay capital gains when they sell a business to another party.
- **Dividends tax:** Paid by directors of companies who choose to remunerate themselves via dividends instead of or as well as via a salary. Dividends tax is also paid by investors on sales of stocks, shares and bonds etc.

Because of the variety of taxes out there, plus the fact that many apply differently to different types of businesses, it's often a good idea to engage the services of a tax professional or business adviser. Their job is to make sense of it all so you don't have to.

## HIRING AN ACCOUNTANT

People often start businesses intending to do everything themselves. They think, quite rightly, that keeping costs down in the early days will give the business a better chance of long-term success. But then reality dawns. Many realise that crunching their own numbers is a false economy that costs more than it saves.

Despite what the famous advert says, tax *can* be really quite taxing, especially if your business is complex and is registered for VAT, with lots of complicated equations involving salaries, debt and grants. It can be the cause of stress, anxiety and sleepless nights.

If you're currently working without the services of an accountant – in other words, if you're doing your own business and/or personal tax returns – then you're either a multi-talented and highly organised individual, or you're spending a lot of time searching for documents, working out complex sums and toing and froing with HMRC.

In the latter case, it's almost certainly worth investigating hiring an accountant. The golden rule is that if you can earn the cost of accountancy services doing a job that you understand and enjoy, then it's time to give up the calculator.

Accountants are specialists with tax and business planning in the same way you are with wiring, plumbing or fencing (or whatever your trade happens to be). They should have a good working relationship with HMRC and an extensive knowledge of the tax system.

A good accountant will assist your business in meeting all of its tax obligations (without suffering late filing or payment penalties) and can advise you on tax-deductible expenditure and tax incentives. In

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other words, you could reduce your tax exposure by running your finances in a certain way.

"Have money behind you to start with and use an accountant. When starting a company you're not going to wake up one morning and be booked up for the next three months with more work coming in daily. That takes time and within the first couple of years you'll find times where you have no work at all.

"If you've got money behind you this will help you through these times. If you have friends, family or people you know in the trade who are established then they might give you some work during quieter times.



"Having an accountant to do your books and finances is the easiest way. Some of the forms you have to fill out for self assessments and the like can be very confusing. An accountant will ensure they are filled out properly to stop you getting into trouble with HMRC."

**– Matt Merry, Matt Merry Roofing**

So accountants are there to save you time, money and stress. The good news for small businesses is that you don't have to hire a professional in-house, because there is such a wide variety of outsourced options to choose from.

Companies as diverse as Crunch Accounting, KPMG, inniAccounts and hundreds more will help you run your books with fees ranging from £800 to £2,000 a year for a small business with simple tax liabilities – a fraction of what you would pay a bookkeeper.

"Cash flow is difficult, but with the assistance of the bank, who have provided an overdraft to cover cash flow on larger projects, and a loan for investment in machinery to move the business forward, it is achievable.

"I had very little personal money to invest in my business, but I now have nearly ten times the turnover than I did in the early years. I use an accountant for all tax affairs – my expertise is in kitchens and bathrooms, so my time is wasted if I try to do this side of things on my own."



**– Chris Fairbairn, Cribbit Installations Ltd**

# ACCOUNTANCY SOFTWARE

The arrival of ‘fintech’ (financial technology) has greatly improved the tech behind accountancy software. Paper and pens are out the window, replaced by cloud computing and inputting/uploading of invoices, expenses and payments at the touch of a button.

All of the accountancy services listed above come with software. Your job is to input invoices, payments and expenses; when it comes to paying the taxman, the software will do the necessary calculations and your accountant will check and file documents with HMRC.

The software is improving all the time. At the time of writing, a good software package will allow you to take a picture of a receipt for automatic expense filing and to send invoices via your smartphone as soon as you close your customer’s door behind you.

The combination of smart technology and smart accountants is brilliant for businesses on the move. It allows you to spend a whole lot less time on taxes and instead focus on doing what you do best. It’s possible to commission a tax specialist and get a subscription to accountancy software separately – in most cases this won’t be a problem for either party.

# BORROWING MONEY

Borrowing money is normal in business, but it’s important to borrow for the right reasons. Normally a finance provider like a bank will lend money to a business for a specific reason, such as to buy a vehicle or a piece of machinery.

In most cases, it won’t lend money to cover salaries or other day-to-day outgoings. This is the origin of the old adage that people can only borrow money when they don’t need to. However, at the start of your banking relationship it’s a good idea to enquire about debt facilities like an overdraft. This might prove valuable as you invest to grow or fall into a temporary cash flow trap.



As with any product, loans are part of a market with different offers, charges and conditions attached. So it pays to shop around for the best deal, particularly if you plan to borrow a large amount of cash for a major capital investment, for example.



Given that money is money, it's surprising to see wildly different interest rates offered just by the major banks. But dig a little deeper and the range of loans broadens further. You might want to look at the British Business Bank, a state-owned company that lends to growing businesses, for example.

You could also consider peer-to-peer lending via services such as Zopa or RateSetter, which could offer easier access to finance, or you could go the old-fashioned route of falling back on family and friends for a small IOU.

Borrowing from the people you know has obvious advantages – for example, you don't have to go through the same affordability checks you would with a professional lender. But it also has drawbacks, as many a friendship has broken down over debt, so think hard before you go cap in hand.

## HOW TO SECURE EXTERNAL FUNDING

*by Barclays*

Running a business can be exciting, especially when new growth opportunities come along, but it can be hard to know how to finance the next stage of development. If that's the case, external funding could provide a solution.

## ***At what point should I approach a bank?***

The most critical piece of advice is to engage with your bank as early as possible.

Many businesses decide on a strategy and put a figure on the funding they require before contacting their lender. Sharing your ideas at an earlier stage allows your bank to better understand your strategic aims when the application for finance is submitted.

This approach requires you to have open conversations about plans that may not be fully formulated. However, early conversations can ensure all options are discussed, which should make you and lenders more comfortable when making future decisions.

## ***What do banks look for?***

There's no method to guarantee success when pitching for business finance, but that doesn't mean you can't give yourself an advantage by presenting your case in the best possible way.

Many lenders, including Barclays, will use the CAMPARI framework to assess your application. If you can satisfy this model in your pitch for funding, you'll go a long way to getting a positive outcome. And don't forget to add in anything that makes your business stand out, for example if you've won awards or been particularly successful in a certain area. Think about whether there's anything relevant that the bank might not ask about but that could put your business in a stronger position.

- **C – Character:** This is your chance to shine, and in business financing terms that means convincing investors that you – and your business – have the professionalism to look after their money and give them a return. That can incorporate many things, from the confidence you have in your idea, to your business's record in making loan repayments. Having a strong brand reputation can go a long way.

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- **A – Ability:** You need to show clearly that you and the people in your business have the knowledge and ability to generate growth from any funding that's provided. Your track record as a business is likely to be considered, as is the quality of its products or services and the strengths of the management team. Your staff could also play an important role – having good people in key positions helps to give lenders confidence, so consider taking on outside expertise if you need to bring additional expertise into the business.
- **M – Means:** Is your business equipped to deliver on your growth ambitions? This is where the strength of your business plan comes into action. You should try to show where you have, or will have, a competitive advantage in the market. You should also prepare detailed financial reports with best and worst-case scenarios, future growth projections, prior performance records and in-depth company expenditure.
- **P – Purpose:** Lenders will want to know what the money will be used for and how it will be used to generate a profit or improve the business's financial situation. This part of the framework is also where prospective investors will consider whether the borrowing is in the best interests of the business, whether there's a good enough reason for requesting it and whether it fits in with their own lending guidelines.
- **A – Amount:** How much are you asking for, and is it the right amount for your stated requirements? Potential investors will want to see how you have decided on the level of funding you are asking for, how it aligns with your financial projections and what the business's own contributions to the project may be. It's worth taking the time to scrutinise this properly. While it's a good idea to be prudent, asking for too little could be counterproductive if it means your plans are judged as being less likely to succeed.
- **R – Repayment:** You'll need to be able to show concrete evidence that you will be able to afford any repayments, or provide solid projections that indicate how you'll be able to pay back your investors over time. Lenders will be looking for details on the

source of the repayment money and will likely be considering areas such as the health of your cash flow, your profit margins, and if the repayment period is acceptable.

- **I – Insurance:** In many cases it's important for you to be able to show that you have a fallback plan in case things go wrong. Do you have another source of repayment? Has any insurance been taken out that would allow you to repay the financing if you fall short of your targets? If you're securing the finance on an asset, make sure you have an up-to-date valuation to show.

In addition to the questions above, banks will also look for some specific financial information to help them assess your application.

### ***Up-to-date financial statements (created within nine months)***

Information on how well the business has been performing in the recent past.

### ***Your business plan***

A business plan will help you collate and clarify your business ideas, plan for the future of your business, and show whether your idea is realistic and workable. Your business plan will play a key role in attracting funding to get your business started, so you should make sure you have one prepared before applying for lending.

Think about how your new venture supports your long-term aims and the wider goals of your business. This will help the bank to understand how a new opportunity fits with your business strategy, structure and current operation.

### ***Forecasts of 12 months***

In addition to historic and recent performance, your business plan should include realistic projections for the future. It can be useful to include a 'what if' analysis, demonstrating that you have considered

the effect of events such as the unexpected loss of a key customer, increased competitive pressures or a rise in operating costs.

## *Alternative funding solutions*

Sometimes a bank isn't always the right source of funding, and there are a range of other options available to businesses.

- **Crowdfunding:** This is where businesses raise small amounts of money from lots of people, via specialist online platforms. In exchange for the cash, businesses can promise a range of things such as early access to products, discounts or equity stakes in the business. Crowdfunding can be used for purposes as diverse as funding a small project to getting a new business off the ground, but with many businesses fighting for attention it can be hard to successfully raise the money you might be looking for.
- **Peer-to-peer lending:** This combines aspects of traditional lending and crowdfunding together, with specialist online platforms allowing businesses to take out loans funded by many individual investors. The criteria for borrowing in this way can be less strict than traditional banks, while you may also be able to borrow more and get your hands on the cash more quickly. But costs are not always lower than they would be for a traditional business loan from a bank.

## *Key takeaways*

Engage with your bank as early as possible. Open conversations about your plans and financial requirements during business planning will help your bank to have a better understanding of your business when assessing a future funding application.

Consider the range of funding options so that you are confident you have chosen the appropriate solution for your business. Early discussions with your bank should support you in making this decision.

When applying for funding, you will be asked to provide up-to-date financial statements, forecasts, and a comprehensive business plan.

*Accelerate!*

## ***About Barclays***

*Barclays is a transatlantic consumer and wholesale bank with global reach, offering products and services across personal, corporate and investment banking, credit cards and wealth management, with a strong presence in our two home markets of the UK and the US.*

*With over 325 years of history and expertise in banking, Barclays operates in over 40 countries and employs approximately 85,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.*

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