6 Suggested Steps for a Healthy, Happy Business

What’s in this guide?

We all dream of being wealthy.

Picture it: sitting on a beautiful beach somewhere tropical, with a cocktail in hand and not a care in the world. That’d do nicely.

But for many that dream stays a dream. And short of buying a lucky lotto ticket, there’s not a lot you can do to make it a reality without putting in the hard work.

The truth is nothing worth having ever came easy, and that includes personal wealth and happiness. So, if you’re ready to roll up your sleeves and beat your own path to prosperity, this guide is for you.

On the following pages, we outline our six suggested steps for a healthy, happy business.

Step 1: Pinpoint a Business Opportunity

There are undoubtedly times throughout all our working lives when we have considered breaking free from the monotony of the 9-to-5 and going it alone.

And while starting your own business can be extremely satisfying - not to mention rewarding - it is not without risk. Careful planning and detailed research must be undertaken before making the big move.

Market Research

First, it is fundamentally important that you carry out market research on your proposed business venture. Try to talk to as many people as possible, including your potential customers via surveys and interviews.

Four questions to ask:

1. Is the product or service currently being offered?
2. What factors do you consider when purchasing the product or service?
3. What do people dislike about the current products or how the service is currently being delivered?
4. What would you improve, if you could, about the current product or service?

Once you have your answers, you need to use this information to work out how your idea will fit into the market place. In short, does your product or service answer any or all of these questions?

Plan

Next, you need to make a plan, and document it. Once you write something down, share it, and get feedback, you will do better.

Your plan should address:

- What exactly your product or service is or does
- Your approach to getting this to market
- How it will be better than the current competition
- Your team, and the people you will need to surround yourself with
- Your financial projections

Note: It can be difficult to estimate ongoing revenue streams when first starting out. However, initial set up and fixed costs should be determinable, which will effectively give you a break even point or show different scenarios of how much investment is needed depending on when revenue commences.

Risk

Finally, when embarking on your entrepreneurial journey, you must understand, plan for, and mitigate risk. Ask yourself the following:

- What is your current situation? Think about employment, available savings, monthly fixed outgoings, family, etc. How will you pay your bills and keep food on the table during the early stages of your business?
- Are you jumping in too soon? Is it the right time for you personally, and for your product or service to enter the market?
- Do you currently enjoy your work? Can you juggle both while setting up the business?

With answers to those questions, you'll be better placed to confidently move forward with your business idea.

Step 2: Setting Up

With your business idea firmly in place, fully researched, and planned with precision, you must now decide on the structure of your business.

Typically, you will have three options from which to choose:

1. Sole Trader
2. Partnership
3. Limited Company

Here we take a brief look at each and talk you through their differences and benefits.

Sole Trader

This is the most common and easiest to understand of the available business structures.

As a sole trader, you will own and be responsible for your business, which will be registered for tax in your name. This means you'll have the same tax number (usually your PPS number) for all tax for which you're liable.

Earnings can be paid into a bank account under your own name, but you can in fact trade under a different name. For example, Sean Brown trading as *Passionate Painter*.

A sole trader will be assessed on his or her profits for a specific accounting period. Using Sean as our example, his accounting period ends on 31 December. Therefore, he will be assessed on the profits from his painting and decorating business in 2017 based on the profits outlined in his accounts for the year ended 31 December 2017.

Any money that Sean takes out of the business for living expenses is called drawings, which is not a deductible expense to reduce the profit of the business.

After the end of the accounting period, the accounts of the business need to be prepared - this will show you your profit for that period. In doing so, you can monitor the performance of your business by quickly identifying an increase or decrease in profits in comparison to the previous year, and determining the reasons for this.

Accounts must also be prepared for tax purposes and finance providers, should you wish to pursue funding and grow your business.

Very basic Income & Expenditure Accounts can be useful for showing the income and expenses for a certain period, while a more detailed set of sole trader accounts will drill down into profit & loss, balance sheets, the banking position, debtors, creditors, stock on hand, and any loans outstanding at the end of the period.

The profits or losses displayed in the accounts will be included in your tax return for that period and will subsequently determine your tax liability. For a single person, any profits up to €34,550 will be taxed at the lower tax rate and will also be subject to Universal Social Charge (USC) and PRSI.

Once profits exceed that figure, you will be taxed at the higher rate of 40% plus USC and PRSI. When profits start increasing and tax bills follow suit, you should look at a different business structure; one that's better suited for your growing business in terms of tax efficiency and good business practice.

The move from a sole trader to another business structure is quite common, particularly when profits grow, contracts become larger, and risks increase. However, for an early stage business idea, starting as a sole trader can be the ideal way to test the waters.

Partnership

A partnership is where a number of individuals come together to carry on a business with a view to the realisation of profits. This particular business structure is quite common among professionals such as doctors, dentists, solicitors, and accountants, but it can be used for most other traders, including farmers and those involved in the construction industry.

As the name suggests, a partnership must have at least two partners. If there are two partners, and one dies, retires, or leaves the partnership, and the remaining partner continues with the business, then that individual will become a sole trader.

It would be registered for tax in the partnership's name, and each individual partner would have a separate tax number. A partnership is usually governed by a partnership agreement, and if there is no formal agreement then the Partnership Act of 1890 would provide useful guidance in terms of how the partnership should function.

Any profits or losses made by the partnership would be divided among the partners in accordance with a profit sharing agreement.

Limited Company

The final option we're going to discuss is a limited company. Under this structure, the business is carried on through a company which is a distinct and separate legal entity from its owner(s).

The ownership of the company is divided into shares, and the proportion of shares that each individual owns will be their percentage holding in the company. Say for example 100 shares is the share capital of the company, and our friend Sean from earlier owns 75, with his wife Mary owning the remaining 25, then Sean owns 75% of the company.

Tip: Companies can be a more suitable structure when profits are increasing, or you're winning higher value contracts or expect to encounter greater risk in your marketplace.

When it comes to taxation, the company will pay corporation tax on its trading profits at 12.5% and 25% on non-trading profits such as rental income and deposit interest. The company benefits from limited liability (hence the name 'Limited Company) so that in the event of any losses, a severe decline in trade, or any legal action being brought against the company, it can only pay based on the assets it owns.

This means the owner of the company is protected against the debts of the company, provided the owner has been honest in their dealings and upheld their responsibilities and obligations as a director in accordance with company law.

In the vast majority of cases, the company will have to file accounts with the Companies Registration Office (CRO) and will also have to have an annual general meeting (AGM) and take minutes of board meetings when important business decisions are taken. The company will also have to file an annual return (form B1) with the CRO on which it gives details of its shareholders and percentage holdings. A company can have only one shareholder, but it must have at least one director and a secretary who cannot be the same individual.

Unlike setting up as a sole trader, a limited company requires a great deal more governance and attention to detail. For starters, the company's money belongs to the company, not the owner. As a director of a limited company, you can withdraw money by means of a salary or dividend.

The benefits of opting for this particular structure include lower tax rates - which in turn frees up more cash to invest in the business, or pay off debts or other liabilities - and scope for pension planning.

Read more: **New Company - What Next?**

Step 3: The Growth Stage

As your business grows, there are a few important things you must consider. These include:

- Financial reporting, bookkeeping, and accounting
- Monitoring business performance and KPIs
- Systems and processes
- Cashflow, budgeting, and forecasting
- Governance, responsibilities, and procedures

Scaling Up - An Overview

Throughout the growth stage, your business will encounter many challenges. It may seem any early problems you had to overcome were minor in comparison to these challenges, but the truth is it's all relevant.

It's therefore important that processes and procedures are in place which will support your business as it grows, and that these processes are underpinned by a solid business model.

Key Considerations

► Financial Reporting

This covers everything from basic bookkeeping processes, review of financial performance, comparison with targets and using the data captured to make future business decisions. The process around bookkeeping and the capturing of financial information is the foundation that the financial reporting will be built upon, and you must give it the investment it deserves. Having good data is critical to knowing how your business is performing at any given time. The days of waiting six months after the year end to know if you are making money are well and truly over.

Consider **cloud accounting solutions and data capture software** to assist with the processing of purchase invoices, and build a strong relationship with an accountant that understands what your needs are. Don't see this as a cost, but as an another important investment.

Cashflow

Regardless of profits, cashflow (or lack thereof) will determine if your business survives or fails. It's really *that* important.

You should develop a cashflow budget and monitor it weekly, updating for actual income & expenditure, and adjusting the budget going forward to take account of what has actually happened. Ensure you are giving your business the best chance by implementing good cash management practices, such as:

- Good bookkeeping/sales invoice software to ensure timely payment of invoices
- Agree terms with customers upfront
- Credit control procedures (this is not just for late payers)
- Make it easy for customers to pay – use technology to your advantage

Don't fool yourself, if the business plan and budget says your business needs cash to grow and that is the plan you are implementing, you need to get finance. Talk to your Adviser and come up with a plan.

Monitoring performance

Develop simple key performance indicators (KPIs) to monitor performance, and be proactive in better understanding your financial business model.

This may take time with your accountant, but it will be time very well spent. You will then be well placed to measure the business performance against the KPIs.

Governance

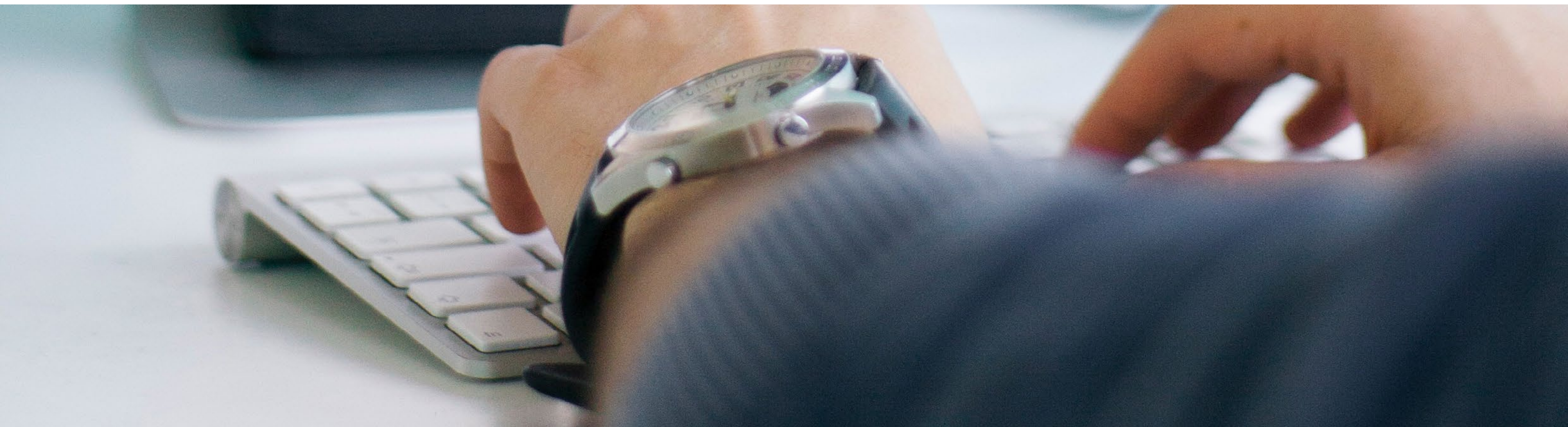
A crucial step in the journey from a self-employed individual to a fully fledged business owner is moving from the mindset of being a 'doer' to a leader.

You must learn to delegate effectively, and confidently rely on others to do their part in driving the business forward.

What's more, you need to ensure the proper controls are put in place throughout your business. Structured reporting and management meetings with your employees will keep them accountable for their responsibilities, while important controls around finance will help you avoid waste or fraud from occurring.

This may be a stage where you consider involving some additional expertise in the form of third party board members. Of course, this would be a very important decision and one that should not be taken lightly as the Board of Directors run the company on behalf of the shareholders. That being said, a board member with expertise in an area that you are trying to develop in may bring great benefits to the company in the form of experience and contacts.

Tip: If there are multiple business owners (shareholders), a shareholders agreement should be put in place. The shareholders agreement will assist in dealing with difficult issues such as dispute and exit, and may assist in unnecessary and distracting legal situations at a future date.



Step 4: Hiring the Right Staff

A key element for a successful growing business is having the right staff in place. After all, there's only so much work one person can do, and if you have designs on scaling up and earning more money, you'll need to hire people to support you.

Of course, this brings with it some challenges for you as a business owner. Before long, you may find yourself asking:

- Where do I get these new people from?
- How do I ensure that they're the right person for the job?
- What should the level of salary be, and what about other benefits?
- How do I train them and keep them motivated?
- And what about moving someone on that isn't cutting the mustard anymore?

Here are a few key considerations for when the time comes to hire your very own staff members.

Hiring

The hiring stage can be very tricky, and it often comes down to trial and error if you don't have much experience in identifying and recruiting new staff. But there are a few things you can do to minimise the risk of hiring the wrong person for the role.

The Search

- Consider utilising a specialist recruiter in your field of expertise. They know what they're looking for on your behalf, and it means you don't need to spend your valuable time poring over CVs and applications. The recruiter will bring you a shortlist of the best candidates, ready to be interviewed.
- Of course, the downside to using a recruiter is cost. If you'd rather keep things lean, look to your immediate network for recommendations. Try LinkedIn for recommendations and introductions, or local networking events to speak with other business owners.
- Write a clear and comprehensive job outline, including a realistic salary level for the position, and post it on social media sites, your website, and job boards. Do your research and make sure you're willing to pay the going rate for the quality of hire you require. Taking the time to do this will also help you avoid wasting time with candidates who are not qualified for the role.
- Speaking of social media, use it to your advantage when screening potential hires. A person's online presence will give you a good insight into their character and personality.

The Interview

- Plan ahead for the interview. Write down the questions you want to ask, and make sure you include questions about the candidate's hobbies and interests - this will help you get to know them a little better as a more rounded individual.
- Discuss salary expectations, benefits you can offer, and anything else pertinent to the role.
- Finally, mark the candidate on a scale of 1 to 5 (with 5 being the best) under a range of headings relating to the job and the interview itself. This might include experience, presentation, personality, and punctuality.

The Shortlist

- Narrow down your list to the two candidates who made the biggest impression.
- Contact their references to get their feedback and an insight into past performance in a previous role (if possible).
- Lastly, select your candidate and inform them of your decision. If they accept the job offer, congratulations, you've made a key hire.

Tip: Although by no means necessary, it's always nice to inform unsuccessful candidates of your decision. It's a rare act in this day and age, and it promotes positive word-of-mouth for your business.

What Comes Next?

Meet with your new hire and outline the next steps in terms of salary, start date, dress code, responsibilities, etc.

You should also prepare a contract before your new arrival starts, and discuss the probationary period and all other HR requirements. If you don't have this expertise in-house, we recommend you get outside help from a HR professional.

Step 5: Time to Expand Further

As your business continues to grow, the challenge of how to effectively scale becomes real. You must consider the structure of your business, how it will be funded, and the opportunities available as you seek to make that next big step forward.

Here we address those key considerations in more detail.

Time to Restructure?

If you started the business as a sole trader, it may now be time to revisit the structure options we discussed back at step two.

At this stage, you may have one eye on how to bring in investment, or perhaps you're even thinking about how you might exit the business further down the line. The fact is, in order to do either of those things, you will need a more robust business structure - one that's fit for purpose.

Forming a Limited Company could be the way forward, but there are other considerations within how the company is owned and operated. Ordinary shares in a Limited Company carry the same rights to vote and also the same rights (share of the pie) upon exit.

If you're ready to bring in new investors, or you'd like to reward key employees with shares, you should consider creating a different class of shares. This is what's known as A or B shares, which have limited or no voting rights and therefore ensures you retain control.

You might also consider transferring your shares to a holding company - effectively a new company above your standalone trading company. This could be for tax purposes, while the commercial advantages of operating different standalone divisions within different companies could help you grow in a more organised and effective manner. What's more, these companies could then be sold as separate entities should the opportunity arise.

Finally, in addition to the corporate structure, the structure of the organisation and internal management should be strengthened. As it's no longer feasible for a business owner to do everything within a growing business, each area will require an accountable individual to oversee its processes and manage it day-to-day.

And potential investors or lenders that may be approached for funding would expect to see strong governance in place before parting with their cash.

Funding & Finance

Speaking of funding, growth will not occur without some level of investment. In order to obtain funding, you will need to know where your business currently sits in its lifecycle, and the appropriate forms of funding available to it.

The types of funding which should be considered at the scaling stage would be equity and debt.

► Option 1: Equity

This is where the company is given cash in exchange for shares (a portion of the ownership in the company). At the very early stages, the only option for you may be to go down this route with either your own savings or with family and friends.

At a more advanced stage, there may be options to give a form of equity to investors but still retain the controlling interest in your company. The options can become quite complex and are not for this guide, but just be aware that this route is not always straightforward.

► Option 2: Debt

This is effectively loans from either a financial institution or from other sources. There are also various forms of debt:

- ***Term Loan*** – this would generally be used to fund fit out or other longer term types of projects. There is a fixed repayment term over a period of years
- ***Stocking Loan*** – this is money borrowed specifically to purchase stock. It would be common in a seasonal type business (clothing retailer, farming or motor dealership) which demand spikes at certain points of the season. In order to invest in the stock you need to sell you obtain finance and then once the stock is sold you repay the finance quickly.
- ***Invoice Discounting*** – Once your business has been up and running for a period of time and it starts to win larger contracts with customers it can become difficult to fund that growth.

  You need more stock, more staff, improved systems, but you don't have the money to invest. Invoice discounting allows the business to have a percentage (maybe 70% to 80%) of sales invoices paid by the bank as soon as the invoice is raised. There is no waiting for 30 – 60 days for the customer to pay.

  This was previously referred to as factoring and often had an image of a distressed company. In the modern world this is not the case and the customers or third parties will have no knowledge that your business is funded this way.
- ***Crowdfunding*** – this is relatively new to the Irish market but certainly has a part to play. It not only ensures you obtain the immediate requirement of funding (generally smaller amounts, say €15,000 - €30,000), but due to its nature it means that your message and product becomes part of a community. This is especially powerful in a customer feel-good type product where the word-of-mouth of this crowdfunding network can be a powerful marketing tool.

Government Assistance

At the startup stage, you will typically liaise with government agencies through the Local Enterprise Office (LEO). The LEO have various supports available to micro enterprises (those with fewer than 10 employees) ranging from financial support for capital, marketing, and employment, to non-financial support such as mentoring and networking groups.

However, as your business grows, there is another government support agency you need to know: Enterprise Ireland (EI). They are export focused, but even if you're not export ready, they can still offer a high level of support. EI issue innovation vouchers worth up to €5,000 to support research projects to explore new ideas.

The key is to investigate all available avenues. Network and learn by talking to other business owners, and collaborate with other businesses in your community or in your area of expertise. Talk, listen and learn.

Acquisition

Under certain circumstances, in order to scale and expand, your best option may be to acquire a smaller competitor that has a customer base, product, location, or skillset which your business does not currently have, and would prove too costly or take too long to develop itself.

By acquiring a business that ticks some or all of those boxes, you can quickly open your business to new markets and revenue streams. But doing so will obviously require money and a great deal of due diligence.

It's important to know that when you acquire another business, you are also acquiring its history. As its new owner, you will be responsible for any future issues that arise as a result of the actions of the previous owners.

Acquisition can be a lucrative way of expediting growth, but it's not something to be undertaken without an appropriate level of research and professional advice.

Tip: Proper due diligence.

Step 6: Your Exit Options

Now this might feel like you're jumping the gun, but as a business owner you really must be aware of the next 10 or 20 years down the line in terms of what your exit or get out options will be.

Exiting your business could look like one or a combination of the following:

- Sale of the business, or part thereof
- Transfer business to a family member
- Merge with another, similar type business
- Close the business
- Business continuation but have a key hire in your position

Essentially, whether you want to reduce your involvement in the day-to-day running, or leave the business altogether, you need to ensure you are well rewarded for all your hard work over the years. So, how exactly do you get rewarded? Simple, make sure you walk away with cash in the bank.

That might be via selling your shares in the business, accessing a significant pension pot that your business has created, or a golden handshake for services rendered. It doesn't really matter the method of the cash extraction, so long as it's carried out in a tax efficient manner. And the best way to achieve this is to plan ahead and make sure you have a clear exit strategy.

Here we take a look at four options for a smooth exit.

1. Pension planning

Starting a pension is a good way to guard your financial future and make exiting your business easier when the time comes. However, you should be aware that the type of business structure you have can determine the amount you can put into a pension scheme and get tax relief. For example, as a sole trader you can put in a set percentage share of your taxable profit which is age dependent. Profit limits also apply.

Ideally, you should put yourself in the position of being able to draw down 25% of your pension pot as a tax free lump sum. The maximum tax-free lump sum is €200,000, so that would mean having a pension fund of €800,000.

Government legislation permits a maximum pension fund of €2,000,000, so drawing down 25% of that is €500,000. The first €200,000 is tax free and the next €300,000 would be taxed at 20% so you would have €440,000 after tax. The balance of your fund can give you a pension and then be passed on to your family.

While pensions are an option, there is often a fear of "money disappearing into a black hole" so you need to get the right advice, understand what you are getting into and understand the risks involved, along with the charges and the expected return at retirement under various growth percentages.

2. Sale of a business, or part thereof

If there is no viable option in place to pass on your business to the next generation, you may consider selling some or all of your business. Again, it is vitally important that you plan for this. The reason you need to plan is that you want to maximise the value you get on any sale. You don't want to give any potential purchaser an excuse to discount the price you are hoping to achieve.

You will therefore need answers to the following:

- How is the business valued? Multiple of earnings or turnover?
- What is the multiple for the type of business you have?
- What type of customers/clients do you have?
- What systems and processes are in place in the business so that any would-be purchaser can come in without having to start from scratch?
- What have similar businesses sold for recently?
- How good is your finance function? Do you have excellent and clean accounting records?
- Are your taxes all up to date and paid?
- What issues would a potential purchaser uncover in a tax or financial due diligence?
- Is there a partnership or shareholders agreement in place?
- Is the purchaser genuine or are they just trying to find out information about your customers?
- Does the purchaser have the financial capability to buy?
- Is your involvement needed post sale so that the handover period will run smoothly?
- What about taxes and the reliefs available such as Retirement relief and Entrepreneurs relief?
- Is there pre-planning required so that the business is structured to maximise tax reliefs?
- What are you selling, business assets or shares of the business? And what is best for you and the purchaser?

3. Business succession

If you can't bring yourself to sell the business to a third party, you may wish to keep it in the family. If you have family members who are interested in taking over the reins - and they're suitable and qualified to do so - proper planning is essential to achieve your desired outcome.

Tip: There can be generous tax reliefs on passing to the next generation.

For effective succession planning, you must be aware of the following questions and considerations:

- Where possible, it's recommended that you choose one family member to fill your shoes
- If involving more than one, can each own a separate trade or premises?
- Multiple family members involved in running one trade can be difficult and often leads to conflict – think Dunnes Stores and Aldi!
- Does the person have the necessary experience and do they understand the different parts of the trade? Have they worked in the trade and been involved in growing the trade alongside you?
- Is there an option for your successor to buy some of the business from you via existing cash in the business or through a bank loan?
- What about the opportunity for a share buyback to extract cash?
- Given the tax reliefs and value of the company, what amount would be desirable?
- Will you still control the business or pass on a majority share?
- What will your role be going forward and will you still need an income from the business?
- Should you phase the handover?
- Is there any company restructuring that needs to be done prior to transfer?
- What about the scope for a tax free termination payment?

4. Close the business

If you have no willing buyers and no family to step into the breach, you may be left with no other course of action but to close the business.

In this situation, you could still have a number of options to comfortably leave your business behind. Consider the following:

- Can you sell the stock to generate cash?
- What will the effect of a large stock sale do to profits?
- Can you sell customer lists?
- What about the premises? Can this be rented or sold?
- What about the equipment? Again, can it be sold or rented?
- Should you strike off or liquidate your company, and what are the tax implications?
- Will the cessation of a sole trader or partnership generate additional tax liabilities?
- Can you make a lump sum contribution to your pension?
- Can you avail of any tax reliefs such as Retirement Relief, Entrepreneurs Relief or others?
- What tax liabilities will be generated on rental income?
- Can you make a termination payment?
- When can you draw down your pension and what lump sum and income will it generate?

As you can see, there are quite a few variables at play - and hundreds more we didn't have space to mention - when you decide to exit your business.

Whether you're planning on selling, transferring to the next generation, or closing it down entirely, it's vital that you plan ahead to maximise the value of your business.

Read more: **Thinking of Selling Your Business? It's Never Too Early to Start Planning**

Summary

They say that in life there are only two certainties; unfortunately a happy, healthy business doesn't make the list.

No-one can guarantee that your business will take off and that your bank balance will swell. But if you follow our **Six Suggested Steps for a Healthy, Happy Business** you should see a path being plotted from your initial idea to the day you swap meetings for mojitos on an island paradise.

With years of experience helping businesses just like yours launch, grow, and flourish, we can offer guidance at any stage during your entrepreneurial journey.

Get in touch today; **we're only a phone call or email away.**