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# HOW TO SET UP AND RUN A BUSINESS AFTER REDUNDANCY

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**"I HAVE BEEN MADE REDUNDANT BEFORE AND IT IS A TERRIBLE BLOW; REDUNDANT IS A ROTTEN WORD BECAUSE IT MAKES YOU THINK YOU ARE USELESS."**

#### **BILLY CONNOLLY**

Billy Connolly may have thought this at the time, but he went on to form a successful business career as one of the UK's greatest stand-up comedians. Redundancy can be a relief to some and, if accompanied with a payout from an employer, it can provide the chance to do something new. For others it can be a very uncomfortable time. It can damage confidence and associated feelings of self-worth and raises the big question of 'what do I do next?' This guide focuses on how to view redundancy as a positive change in your life, while providing you with the information needed to set up your own business.



### **THIS MINI-GUIDE WILL HELP YOU TO:**

- Explore your motivations for starting a business
- Help you to rebuild your confidence
- Help you decide on the type of business that is right for you
- Discover who your competitors are likely to be
- Think about how to research your market

## **REDUNDANCY AND OPPORTUNITY**

Setting up in business following redundancy could be the break that you've been waiting for. Alternatively, selfemployment might be something you're not passionate about but it seems the best of a range of options. Running your own business does not necessarily mean doing something completely different, or needing to have premises and a team of people. You could do what you were doing before being made redundant, but now as a contractor - maybe for the same company you used to work for. There may also be opportunities to work as

a consultant or on a freelance basis in the field you specialise in. Regardless of your reasons for setting up your business, it is important to try and look at the situation as positively as you can – 'you are where you are' as the saying goes. In fact redundancy has created an opportunity for you, a chance to try something different. This guide will provide a foundation for you to make the best of that opportunity.



# CHECK YOUR MOTIVATION

Redundancy often provides another good opportunity – the chance to take stock of your life and career choices. Consider whether there are products or services that you would enjoy selling, or a skill or interest that you would like to develop. It is likely that you will have to invest many hours to start and build up your new business, particularly in the early days. Being passionate about what you're doing from the outset will make the hard work worthwhile. Redundancy can bring on a number of different emotions -fear, confidence, excitement or even depression. as well as checking your motivation, reflect on how you feel about this next step in your life. Consider which emotions come from 'facts' as opposed to 'perceptions' about running a business. think about when and

where you might need the emotional and practical support of others.

## REBUILDING CONFIDENCE

Being made redundant can be a blow to your sense of self-worth, even when it has been justified in terms of a need for a company to save costs in response to a decline in business. For some individuals it is difficult to deal with the thought that they are no longer needed. added to this is the fact that the prospect of selfemployment is completely new. it is only natural to have doubts about your ability to succeed in a

career for which you have no experience. think about the areas where you specifically lack confidence. Is it the whole idea of running a business or a specific skill such as accounting or selling? do you worry because you have never run a business before and you think it might be too difficult? like any problem, rebuilding confidence starts with breaking down your concerns into smaller

components. put a table together as follows. this will help you identify the areas in which you lack confidence and what you can do about it. When thinking 'what can i do?' consider how friends, family and contacts might help you. there will be more about this in the 'Support network' section later

Area where I lack confidence	What I can do about it

**CONSIDER WHETHER YOUR LACK OF CONFIDENCE IS A PERMANENT OR A TEMPORARY THING. HAVE YOU ALWAYS LACKED CONFIDENCE?**

## WHAT YOU'RE PROPOSING

The above considerations should take place before you choose which product or service you might provide to customers. To start thinking about a full business proposition you need to prove to yourself (and possible lenders) how your business will be successful.

## HAVE YOU CARRIED OUT MARKET RESEARCH?

Market research will give you an idea of whether people will purchase from you and in what volumes. This can involve simple things such as asking people you know about their spending habits and standing outside shops on a high street to view customer flow, or could involve paying a research company to conduct surveys and questionnaires to give you a 'profile' of your potential customers. The latter can be costly so putting together your own set of questions and getting answers from a broad range of people will also help you build up a picture of customer behaviour. Also asking people 'how' they like to purchase (for example from a shop, from a market stall or from the Internet) will also help you determine whether you will need premises or not. Take a look at the types of small businesses that are doing well at the moment. What is it that makes them successful? This might give you some clues as to how your business could do well.

## WHO WILL YOUR COMPETITORS BE?

Knowing who your competitors are will help you to work out a 'niche' for your business product or service. Your niche is what distinguishes you from your competitors. So how is what you offer different? Could it be better value for money or higher quality? You may not only be in competition with those companies offering similar products or services. For example, if you offer aerobics classes, you might be competing with other leisure services such as swimming pools, cookery classes etc.

## WHO WILL BE YOUR SUPPLIERS AND CUSTOMERS?

Market research will help you to decide who your customers are and where you will find them. The same research principles apply to finding the right suppliers. Use the Internet or trade magazines to investigate what your competitors are doing and to find information on potential suppliers in terms of price, quality and payment terms.

## DO YOU NEED STAFF AND EQUIPMENT?

It is advisable to try and start small and work up to employing other people. However, the likely demand for your products or service will tell you whether you will require staff and if expected sales revenue will support the employment of others. Think about a similar sized operation to the one you are planning. What equipment does the business have and how many employees?

Your answers to the previous questions will also help determine how much money you might need to set up in business. The sources of finance open to you will include some of the following:

- Personal savings, cash support from friends and family, sales of assets such as houses and shares, bank loans, credit cards, overdrafts and enterprise grants.
- You might be in a position to put money gained from a redundancy settlement back into the business, particularly if you have received a redundancy payment from your previous employer. The statutory element of such a payment is tax-free and a certain element of any ex-gratia payment can be claimed tax-free.
- Other sources of funds include equity finance (money invested in exchange for a share in your business).



## WILL YOU NEED FINANCE?

Banks will usually only want to finance businesses where there is already a revenue stream or where there are low-risk assets like property on which to secure a loan. It is important to demonstrate to the bank that the new business has the ability to meet its capital and interest repayments.

There are three different categories to consider with regards to financial support:

1. Start-up capital - one off costs or charges associated with starting up.
2. Working capital - the money you need to run your business from day to day.
3. Revenue or income - how much money the sale of your goods or services will bring in. This includes the 'timing' of when the revenue arrives - basically how long it takes for customers to pay you.



# BUSINESS CHOICES

You could set up a business from scratch using your own idea. If you are going to set up a business similar to a competitor's, extensive market research will be needed to test its viability. Alternatively you could buy an existing business which is already up and running. An established business will have a greater chance of survival but you will need to check up on the business' previous performance – particularly the accounts – to see how it has been faring. Another option is to buy a franchise. This is basically an 'off the shelf' business model. Starbucks and McDonalds are examples of franchises. What you are buying is an existing business formula and branding, in return for a slice

of the profits. In some ways, this is the least risky of the three options. You must consider if working within such a structure is too restrictive and whether it is likely to provide enough income after paying back a percentage of the revenue to the franchising company. The next step is to establish your business' 'legal structure'. A new business can operate as a sole trader, partnership or limited liability company. The most appropriate structure will depend on the nature of the business and level of profit expected. You will need advice to decide what is best for you.

# MAKING SURE YOUR NEW BUSINESS SURVIVES

Consider the list below of the most common reasons for business failure:

- The business owners inexperience
- Insufficient funds to keep the business going
- Poor sales
- Cash flow problems
- Bad location choice
- Inflexible to changes in demand
- Over-investment in fixed assets
- Forced out by competitors
- Bad stock control
- Poor credit arrangements
- Taking funds out of the business for personal use

Without a crystal ball nobody can predict what is likely to happen, but good planning – particularly when it comes to market research and financial information - will certainly prevent some of these outcomes.

The message is clear – planning for success right from the outset is key. Further questions to ask yourself in order to support your planning process include the following:

- How will your business grow?
- How do you intend to get there?
- What will be the need for funding in the future?
- What will be the future threats to your business and how will you overcome them?

**QUESTION:  
KNOWING YOUR  
STRENGTHS AND  
WEAKNESSES, WHICH  
OF THE FACTORS ABOVE  
WOULD YOU NEED TO  
BETTER UNDERSTAND  
TO AVOID THEM  
HAPPENING TO  
YOU?**

# START UP YOUR NEW BUSINESS AFTER REDUNDANCY - STEP BY STEP

## STEP ONE

Take time out to reflect. Redundancy can be a big emotional upheaval. You need time to assess whether setting up in business is right for you, and whether you can dedicate yourself to the challenge ahead.

## STEP TWO

You will need to create a strong business proposition as part of a business plan. Central to this will be your market research indicating the what, how, when, where and quantity you will sell.

## STEP THREE

Part of your business plan you will also have to do all the 'number crunching'. This will indicate how much funding you will need, what prices you set for your goods or services and how you will manage your cash flow. If necessary, take a basic course in financial management to familiarise yourself with financial terminology.

## STEP FOUR

Decide on the location for your business as dictated by how your customers prefer to purchase from you. If separating home life and work is important, then look for managed workspace with office facilities such as answering services etc. If you need premises and are retailing to customers, make sure you consider accessibility.

## STEP FIVE

Consider the legal status of your business. Take advice on whether to set up as a sole trader, partnership or a limited company. You may also need advice on VAT registration, licensing agreements, Data Protection Registration and contracts etc, where necessary.

## STEP SIX

Compare a business of similar size to your intended operation to create a checklist of resource needs and other practicalities. This could include items such as stock, staff, computers, telephones, brochures and business cards, filing cabinets etc. Try and cover everything.

## STEP SEVEN

Check out the amount and sources of funding you need. Your business plan will tell you how much and will determine whether you need more than personal savings and redundancy money to get started.

## STEP EIGHT

After securing funding, think about how you can promote and market your business without spending too much money. This might mean organising a launch event, telling your family and friends (and all their friends), press coverage and handing out leaflets and business cards.

## STEP NINE

Get started. If you have considered everything in this guide you will be wellprepared for the challenge ahead. Don't forget to add the vital ingredients of passion and hard-work to increase your chances of success.



# UNDERSTANDING YOUR STRENGTHS AND WEAKNESSES

The following is a list of the skill areas associated with setting up and running a small business:

- Researching your idea or market
- Finding premises
- Preparing a business plan
- Preparing cash flow forecasts
- Book keeping and accounting
- National insurance, tax and VAT
- Costing and pricing products and services
- Designing or commissioning promotional materials
- Dealing with customers
- Selling and marketing
- Dealing with staff - hiring, leading, and managing
- Purchasing and supplier management - stock, services, equipment, premises
- Inventory management and stock control
- Shipping and distribution
- Business communication
- Health and safety
- Insurance and other legal requirements
- E-commerce
- Raising finance
- Using technology to run your business

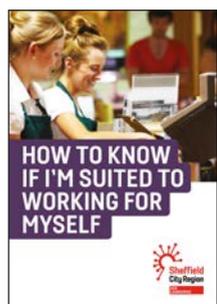
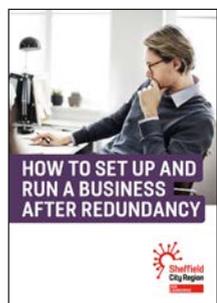
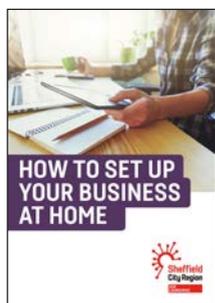
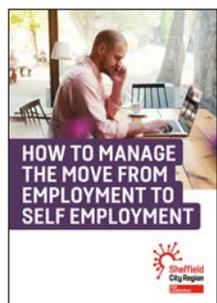
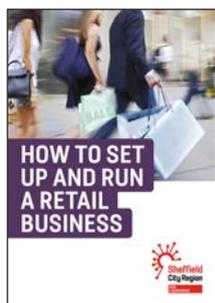
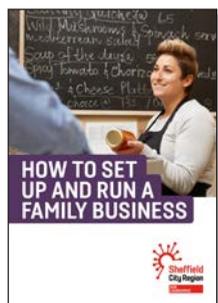
Ask yourself what level of knowledge you have of the topics opposite and which are most important to your business, either in the beginning or longer term. In fact, you can use this list as a 'personal inventory' of your skill strengths and weaknesses so that you can prioritise, exploit or improve on them. You won't be expected to know everything yourself so consider where and how you might get free support from friends

or family. Alternatively consider where you will have to purchase specialist support, particularly at the early stages of running your business.

The Growth Hub can point you in the right direction to help you bridge some of your skills gaps.

## OTHER TITLES IN THIS SERIES...

- How to... understand if I'm suited to working for myself
- How to... balance a busy home life with running a business
- How to... manage the move from employment to self employment
- How to... set up and run a retail business
- How to... increase self-confidence and self-belief for starting up in business
- How to... set up and run a business after redundancy
- How to... set up and run a family business
- How to... set up and run a business if you are new to doing business in the UK
- How to... set up and run a business when you have been out of the job market



## USEFUL RESOURCES

To find out more about legal, financial or general information about starting a business from home contact us:

SCR Growth Hub **03330 00 00 39** or [growthhub@sheffieldcityregion.org.uk](mailto:growthhub@sheffieldcityregion.org.uk)  
Visit our website for useful information on starting up or running a business and to watch video case studies of how other businesses have overcome different barriers to make their business a success.

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