Getting your finances right from the start

Santander

Cash flow management - top tips

- Balance your accounts payable, accounts receivable and shortfall.
- Consider an emergency cash reserve of 3-6 months worth of expenses.
- Set out prompt payment times.
- Allow for the possibility of late payments.
- Make paying early easy and attractive - early bird discounts, click-to-pay invoices, special offers.
- Cloud based accounting apps can help you reconcile your accounts automatically and forecast your cash flow, so you have an overview of where you are AND where you are likely to be.
- Clearing out your inventory can be a great way to kick-start cash flow. Offering discounts to sell off goods that are clogging up your stockroom can bring in cash and potentially save you money on storage.
- A proactive attitude to your finances will ensure you have the best possible chance of success.

Cloud based financial management systems and fintech (financial technology) accounting tools often provide an automated invoice paying solution - this is well worth investing in as it will likely mean your customers pay on time. Traditional invoice and a bank transfer will often fall victim to 'I'll do that later' and get forgotten.

Budgeting - top tips

- A budget can help you identify areas to decrease your spending or increase your revenue, increasing your profitability.
- If you're planning to apply for a business loan or investor funding, you'll need to provide a detailed budget that outlines your income and expenses.
- Think about what you're selling. How much do you predict you will sell? How much money will you sell your product or service for? Are you offering any discounts?
- What are your expenses likely to be? Suppliers, rent, staffing etc. Take into account whether these costs are fixed or variable.
- As a small business, you may want to consider budgeting for shorter periods of time, allowing you to review and adjust your financial position regularly.
- If you're unsure where to start, try using a budgeting template (which can be found online, or in services like Microsoft Excel and Apple Numbers etc) or take advantage of the budgeting features available in many fintech (financial technology) apps.

Create a quick budget in five easy steps:

1. Tally your income sources — using sales reports etc
2. Determine fixed costs — rent, website, certain utilities
3. Include variable expenses — utilities, shipping, travel
4. Predict one-time spends — equipment, IT setup, building work
5. Pull it all together

Start-up costs - top Tips

When budgeting, make sure to factor in your start up costs

- As prices can rise over time, it's best to overestimate what you'll need in your business plan.
- It's important to be realistic about how much money you can put into your start-up costs as this is money you won't get back, no matter how successful your business becomes.
- Examples of start up expenses include: Marketing, Professional fees, Registering your business, and Technical aspects such as websites and new software.

One important start-up cost to consider is your new business premises — are you going to buy outright or lease? There are pros and cons to both.

Buying outright pros:

- Buying outright allows you to make alterations to the building without needing permission from your landlord.
- There are rental opportunities — if you don't use a section of the building, there's a chance to bring in rental income.

Leasing pros:

- Greater flexibility — you can decide not to renew your lease if you want to change your business location or find a bigger premise for your growing business.
- More liquidity, so less of your liquid capital will be tied up in buying the property so you'll need a lot less money upfront.

Buying outright cons:

- Buying outright involves investing a large amount of money that could be used to grow the business and generate income.
- Lack of flexibility if you decide to move the location of your business.

Pricing strategy

Pricing strategy refers to the methods a business uses to work out and set prices for their goods and services. This will account for:

Market conditions

- *The state of an industry or economy. These conditions can have an influence on the general trading climate and can result in a change in the sales environment for certain industries.*

Actions that competitors take

- *The actions a competitor may take in response to your strategy in order to compete with your pricing.*

Trade margins

- *The difference between the price of a product that was purchased for resale, and the price that the distributor would have to pay to replace the product at the time it is sold.*

Input costs

- *The set of costs used to create a new product or service.*

Consumers' ability to pay

- *The maximum price a customer is willing to pay for a product or service.*

Production and distribution costs

- *Production costs can include a variety of expenses such as raw materials, labour, manufacturing supplies — anything it takes to produce your product or service. Distribution costs include the expenses involved in delivering your product to your consumers.*

Variable costs

- *The expenses that change based on how much your company produces or sells, for example raw materials, delivery costs and production supplies.*

Penetration pricing

Penetration pricing aims to offer lower prices on goods and services than those of competitors. It can mean a pick-up in sales and quick adoption, but it can also mean customers expect lower prices and may be unhappy when they rise, or give the impression that your product is low cost so must therefore be low quality.

Price skimming

Price skimming involves setting higher prices during the initial launch of a product, and gradually lowering them as competitor goods appear on the market. You might consider this if your product is in high demand, but it won't work if competitors are offering the same for less. This strategy relies on a feeling of exclusivity and 'get it first.'

Premium pricing

Premium pricing is when a business sets its price higher because they have a unique offering that no one can compete with. This is something you could consider if you have a significant competitive advantage in your target market. Customers accept the higher price tag if they perceive your product to be 'worth it' so your premium price will need to translate in-store, in your packaging, and your marketing strategy.

Bundle pricing

Bundle pricing can mean customers feel they're getting more for their money. It means you can get rid of inventory too - that's why businesses tend to adopt this approach at the end of a product's life cycle. In terms of services, you can use this approach to give an extra service for free or for a reduced amount, without it affecting your labour output significantly - providing value for the customer, and a little more money on top for your business.

Pyschological pricing

Psychological pricing refers to strategies where customers are encouraged to respond emotionally rather than logically when purchasing a product. Essentially, we are talking about the age old '£1.99 sells better than £2.00' approach.

Geographical pricing

Geographical pricing allows you to adapt your price to certain countries according to demand, tariffs and taxes, and shipping costs. Perhaps it's as simple as offering free local delivery.

Economy pricing

Economy pricing means keeping your marketing and production costs as low as possible so you are able to pass on that saving to the consumer. This is more difficult when you're starting out as you will need to build brand awareness to make sales.

Value pricing

Value pricing is a way of setting your pricing based on perceived value. External factors like a recession, or a sharp increase in competition can encourage businesses to set their prices to provide additional value and maintain sales. This tends to work for higher end companies that might for example sell a small product that costs them a lot to make for less than a larger product that costs them less. The consumer therefore perceives better value for money on the smaller product.

Promotional pricing

Promotional pricing is a useful way to increase short term sales. It involves careful planning to ensure you can meet the potential for increased demand, and budgeting to ensure your promotion doesn't leave you out of pocket. Bear in mind that if you do a lot of promotions, customers may wait for the next one to purchase. Loyalty schemes also fall under this category, and can encourage customers to come back to you or share your offering with friends and family.

Captive pricing

Captive pricing encourages consumers to make a one-off purchase. The idea is then that the business makes money from accessories, add-ons and upgrades on their original purchase. This kind of strategy only works for very specific business types of course.

Dynamic pricing

Dynamic pricing means you adapt your pricing depending on who is buying your product or service, and when. This is also known as surge pricing; demand pricing; or time-based pricing. Airlines often use this approach, for example.

Cost-Plus pricing

Cost-plus pricing is a simple strategy where you calculate the cost of your product and add a percentage on top - say, 20%. This approach could allow you to position yourself as a transparent seller who passes on savings to the customer. This practice is widely used in the food and drink industry, for example.

Freemium pricing

Freemium pricing is where you offer your product basics for free, with premium options on top. Think Spotify, YouTube and any number of smartphone apps. Customers may not upgrade, but if you can tempt them with 'no-ads' or extra services once they've fallen in love with your product/ service, it could work for you.

Competitive pricing

Competitive pricing is quite simply the practice of matching or beating your competitors' price points. It doesn't tend to work as a long term strategy, simply because everyone is at it, but it can be combined with other strategies to drive sales.

Cloud based accounting tools

There are now more cloud-based financial services available to small businesses than ever - and some of them offer the basics for free. Get yourself set up with a user-friendly system that makes reading and interpreting your financial information as easy as possible. In the past you may have had to employ someone to monitor your finances constantly, but the advance of technology means that small businesses can at least start out without that kind of manpower.

Crunch

crunch.co.uk

Crunch is a free accounting software for small businesses in the UK that facilitates easy financial management, with features to help with invoicing, expenses, banking and tax. Although Crunch is free, there is also the option to upgrade and gain access to even more features including payroll and VAT filing.

Freshbooks

freshbooks.com/en-gb

Freshbooks is a simple cloud accounting solution designed for freelancers and small businesses. It helps you manage invoicing, payments, expenses and financial reporting. They offer good customer support and there's a 30 day free trial before a sliding scale of solutions thereafter.

Sage Business

sage.com/en-gb/size/small-business

Sage provides accounting solutions for small businesses, freelancers and sole traders. There are a wide range of features to help you with your accounting tasks such as invoicing, tracking taxes, controlling your cash flow and running your payroll.

Xero

xero.com/uk

Xero is a cloud-based accounting software that can also perform bookkeeping functions like invoicing and payroll. It's less expensive than its leading competitors, making it a good option for small businesses.

Resources:

For more information on setting the right price see:

New product pricing strategies: 3 essential tactics for startups

Breakthrough with Santander:

Explore more tools and resources from Santander Breakthrough:

How a business account can help you achieve your ambitions