

Thinking about

# Self employment?

An easier read guide to starting your own business

## 3. Money





**Rapid Enterprise Development (RED) operates across the health, employment, disability and social care sectors to offer interactive and accessible approaches to the development of enterprise opportunities with and for disabled people. For more information about the RED business guides, training resources and strategic support packages, visit our website:**

**[www.rapid-enterprise.co.uk](http://www.rapid-enterprise.co.uk)**

**RED is part of Mutually Inclusive Partnerships:**

**[www.mutuallyinclusive.co.uk](http://www.mutuallyinclusive.co.uk)**

**(For RED Australia visit [www.redbiz.com.au](http://www.redbiz.com.au))**



# Introduction

The recent health crisis is changing the way we work. As a result, many people with learning difficulties are worried about their job or wonder if they will be able to get one in the future.

For some, the answer may lie in setting up their own business.

Self-employment can provide opportunities for people to use their skills and talents, create their own employment opportunities and have more control over how and where they work.



Thinking about self-employment? is a series of guides developed by Mutually Inclusive Partnerships as part of it's RED programme to help more disabled people explore self employment and small business ownership.

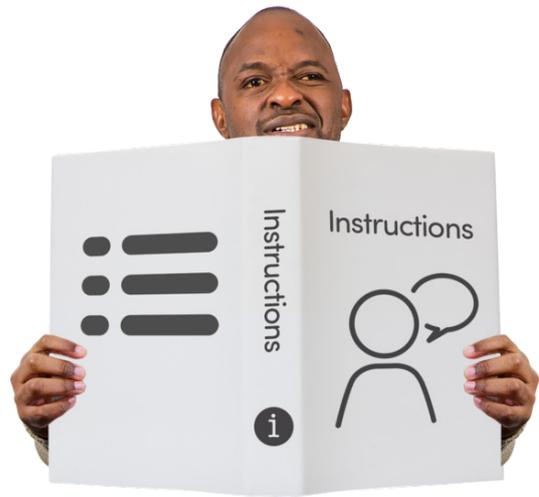
Of course, these short guides cannot cover everything and there may be more to think about if you decide that self-employment is something you want to explore further. More tools and resources are available on the RED website:

[www.rapid-enterprise.co.uk](http://www.rapid-enterprise.co.uk).

All business ideas take time to develop, but by making the journey to enterprise a more straightforward and enjoyable experience, we hope that the guides go some way to support more people consider this route to work.

# How to use these guides

These guides are designed to help you think about your business idea so you can see if it's likely to be a success.



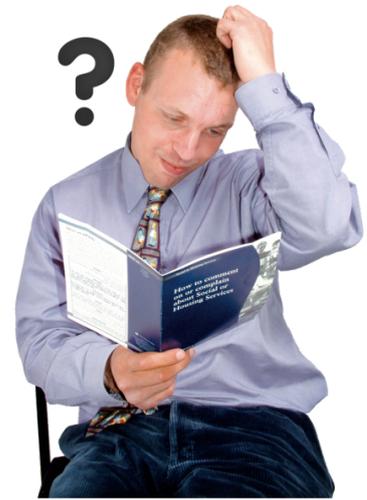
There are five guides in the series. Each one looks at an important aspect of running an enterprise:

1. Your business idea
2. Getting productive
- 3. Money**
4. Customers
5. Support



At the end of each section there is a worksheet to complete and questions to help you think about different aspects of your business idea. Later, these can be used as part of a business plan.

We have included pictures and tried to write in plain English. However, some business words might still be difficult to understand.



We have written these words in red. You can find out what these words mean at the end of the guide.

If you need some extra help you could look at the guides with someone from your family, a friend or a support worker.

Let's get started...



# Section 3. Money



Perhaps the most important aspect of all is money. It might not be the only reason you want to set up your own business - people become self-employed for lots of different reasons - but money is an important part of any business.

Understanding the money - or **finances** - is a way of checking if the idea will work. To do this, you'll need to decide a few things.

## 1. What are **you** selling?

You have already described your idea, **product** or **service**. Try now to think about what one typical sale might look like for your business.

For some, it might be a piece of jewellery, a sandwich or a box of eggs. For others, it might be a half day training session or an hours gardening.

We call this your unit of sale. Knowing what your unit of sale is will make it much easier to understand the money side of your business.

## 2. How much will you charge?

Think carefully about how much you will charge for each unit of sale. There are different ways to do this. You can work out how much it costs you and add a bit, find out what other people charge or what **customers** would feel is fair.



Try to find out what other people charge for the same type of business as yours.

- How much do they charge?
- Is your **product** or **service** exactly the same as theirs?
- You might want to charge a little more - or less - if yours is different

See what you can find out. You can do this by using the internet or phone to find out about their charges.



### 3. What are your costs?

This gets a bit tricky and introduces some new words. Basically, there are two types of costs when running a business.

- The first are **direct costs**

These are linked to your sales. It costs money to make a **product** or run a **service**. These go up and down depending on how many sales are made. These might include ingredients or materials, transport or packaging. They are also sometimes called the **costs of sale**.



Can you work out how much it would cost you for each sale?

- The second type of costs are what we call **indirect costs**



In general, these stay the same regardless of how many sales are made. These might include, insurance, rent, telephone, website or marketing. These are sometimes called **fixed costs or overheads**.



Now think about what these costs would be for a year. These are your **annual fixed costs**.

## What is your **break-even point**?

Once you know your unit of sale, the amount you will charge and your costs, you can start to see if your idea will work.



One way to do this is to work out the **break-even point**. This can help us to understand the money side of the business.

**Break-even point** is the smallest number of sales you need to make in order to cover all your costs. If you think you will be able to do this amount in practise, that may mean the idea will work.

However, if this number feels too high it might show that your idea needs more work - look back at the section Getting productive to check what you can do.



Have a go at completing the **break-even** form. It is OK to estimate the costs to begin with.

Don't forget to ask for help if you need to.



**Top tip**  
think about  
whether the  
number of sales  
you need to make  
is realistic

# Worksheet 3 - Break-even point

What is your **Break-even point**?



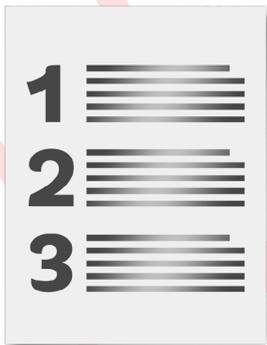
1. What are you selling? An hour of gardening, an Xbox game, a cake?

My unit of sale is:



2. Work what you will charge?

The price is:



3. Now think about how much each unit costs to make or do

The **costs of sale** is:



4. You now need to work out the **profit** on each sale

Sum 1 - To find out the **profit** from each sale, work out:

Price £                      - Cost £                      = **Profit** £

## Worksheet 3 - continued



5. Because some of that **profit** is needed to pay for your fixed costs - we call this the **contribution** - you need to know what the fixed costs are for a year. We call these **annual fixed costs**.

Think about the cost of rent, phone, insurance and marketing. Can you think of more?

Work out what your fixed costs will be:



6. Now you can see how many sales you need to make in order to cover all your costs. This is called your **break-even point**.

Sum 2 - To work out the **break-even**, work out:

**Annual fixed cost**    £    ÷    **Profit per unit**    £    =    **Break-even**

If you divide the **break even** number by 52 it will tell you how many sales you will need per week.

How does this compare with the number of **products** or **services** you thought you could make or deliver?

Do you think you can sell that many in a year?

Do you think your idea could work?



See our website for a longer guide to working out the break-even point.

Hopefully you'll now have worked out your break-even point and be able to think about how many sales are needed to make your idea work.

If you thought this might be too much, can you see what happens if you charge more or reduce costs?

Once you have settled on an idea and think that the number of sales might be achievable, it is time to think about customers.



Next, we need to think about customers

# Business words used in this guide

**Annual fixed costs** - the total of fixed or indirect costs in a year.

**Break-even point** - the minimum number of sales you need to make in order to cover all your costs. Anything over this number is a profit and anything less is a loss.

**Contribution** - the amount of each sale that goes to pay for overheads

**Customers** - the people who pay for your product or service.

**Direct costs, costs of sale** - these are the costs of making or doing your product or service. This includes costs like the materials used, the packaging or transport to get to work. They go up and down depending on how many sales are made.

**Finances** - another word to describe the money side of a business.

**Indirect costs, fixed costs, overheads** - these are the costs of running a business like telephone, insurance and accountant's fee. These more or less stay the same and are independent from the number of sales made.

**Product** - something you make to sell.

**Profit** - the money left after all costs have been paid.

**Service** - something you do for other people.



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research : innovation : enterprise