



HM Revenue
& Customs

Research report 555

Understanding the experiences of start-up businesses

Qualitative research with start-up businesses

April 2017

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1. Research requirement (background to the project)

The early stages in setting up and launching a new business can be a complex and difficult time. Providing appropriate support to individuals and partners navigating this journey can be fundamental to ensuring the successful launch of a business, survival in the competitive market place, and growth and development during the early stages of trading.

This work sought to understand the current customer experience for those setting up a business.

Specifically, the research aimed to:

1. Understand the overall experience of the customer from the point they come up with a business idea, through to the launch of the business, and the first 24 months of trading.
2. Identify challenges faced by start-ups during this period, and the support that is required to help overcome them.
3. Gain an understanding of the experience of interacting with government departments and other organisations during this time, and identify how these interactions could have been improved.
4. Identify opportunities for different government departments to work together to best support start-ups.

2. When the research took place

The research was designed and carried out between January and February 2017. Fieldwork was undertaken between the 23 January and 1 February 2017.

3. Who did the work (research agency)

The research was undertaken by the Employment Welfare and Skills (EWS) team within Ipsos MORI's Social Research Institute.

4. Method, data and tools used, sample

A qualitative approach was undertaken for this study, which consisted of 15 telephone interviews with a purposively selected sample of customers from across Great Britain, who had set up a business within the past 24 months.

All participants were recruited by specialist recruiters. The sample was made up of individuals who had participated in previous research for HMRC, had identified themselves as having started up a business, and who had agreed to be re-contacted for further research.

Participants were recruited to represent a spread of business sectors and locations. The following interviews were achieved:

100 Parliament St. London, SW1A 2BQ

Table 1: Sample profile

Criteria		Interviews achieved
Sector	Accommodation and food service activities	2
	Arts, entertainment and recreation	1
	Construction	2
	Education	2
	Human health and social work activities	1
	Other service activities	2
	Professional scientific and technical activities	3
	Transportation and storage	2
Region	East Midlands	2
	East of England	2
	North West	1
	Northern Ireland	1
	Scotland	1
	South East	4
	South West	1
	West Midlands	2
	Yorkshire and Humber	1

The telephone interviews each lasted 45 minutes and were moderated by a member of the Ipsos MORI research team. Before each interview participants were reassured that their responses would remain confidential and anonymous and that no identifying information would be passed back to HMRC by Ipsos MORI without their permission.

For each interview a topic guide was used, drafted collaboratively by Ipsos MORI and HMRC. The interview data was then fully analysed using a robust inductive approach, as part of which the data was synthesised thematically and interrogated for patterns and relationships.

5. Main findings

Motivation to set up in business

There were a range of reasons why customers decided to set up their own business / become self-employed:

- **Opportunity:** where customers had been working in a sector and felt that there was an opportunity for them to become more successful by setting up on their own.
- **Change of circumstances:** this was strongly associated with a change in life-stage leading to a change in the customer's attitudes towards work. For instance, as one customer's family became older he felt that his previous career which involved a lot of overseas travel was no longer the best fit for him. He started running a business to avoid travelling overseas, in the belief that he would have a better work-life balance.
- **Necessity:** customers who had been made redundant and needed to find alternative employment.

Across all cases, there was an underlying desire amongst start-up customers to work for themselves and external events acted as a catalyst, turning this into action. Even customers driven to set up their own business out of necessity used this as an opportunity to fulfil their ambition. As such, at the point of set-up customers tended to feel positive and excited. Their mind-set was one of wanting to get going and sustain momentum, which informed how they interacted with other organisations, such as their expectation of how quickly any queries would be resolved. As such there were moments of frustration when response times from other organisations, both government and private sector, were perceived to be moving too slowly.

Whilst customers could clearly pinpoint what drove their decision to set up a business / become self-employed, their recall of the experience of starting up did not follow a linear journey. Customers tended to think of 'before set-up' and 'after set-up'. This will be an important consideration when tailoring messages and information to start-up customers.

The start-up customer

There were three different groups within the new business start-up audience. Customer experiences of starting up in business were strongly determined by their group:

1. **Those new to running a business but who had existing experience in their sector:** This group were confident in their understanding of the sector. As such, their journey from deciding to set up to business launch tended to be quick and straightforward, often with only a matter of months between the two. This group had a clear idea of what their business would offer and also had access to a network of

contacts who were able to provide informal support and advice and / or act as a potential client base. This group may / may not have had a business model, however they did have a clear vision for the business and an understanding of what would be required to thrive in their sector. This group primarily required support in the practicalities of running a new business, for example tax requirements.

2. **Those with experience in running a business who were setting up in a new sector:** These customers were confident in their ability to run a business and believed that they would be able to repeat their earlier success in a new sector. There were a number of ways in which having run another business seemed to help this group: they were aware of their tax and other legal obligations e.g. public liability insurance; they were aware of the need to research any potential requirements of their new sector; they had access to an existing support network of small business-owners and seemed to have become accustomed to networking, and gathering and sharing information. Their previous experience enhanced their confidence and made the set-up experience move smoothly.
3. **Those who were new to both running a business and their sector:** There were two subgroups within this category:
 - a. **Those who had set up a franchise or associated organisation** – this group had access to formal support (through the head office) and informal support (for example, through others working in the wider organisation) in setting up their business. The franchise / associated organisation supported the new business through the set-up and helped them to meet both general and sector specific requirements, such as health and safety standards. They were not completely shielded from the challenges associated with setting up a new business but navigating them was easier.
 - b. **Those who were setting up a completely new business** – this group had the greatest support needs as they had low awareness of both sector specific requirements (for example, legal requirements) and also the general requirements of setting up a new business (for example, tax, insurance, marketing). This group did not enter the business set-up completely unaware and may have made a business plan / model but looking back felt that their assumptions about the time between business launch and making a profit, speed of business growth or investment required may have been too optimistic. They lacked key information which held back their set-up process and led to challenges in running the business.

The set-up process

There were a number of key activities and interactions which customers had been through as part of the process of setting up and running their business.

Registering with Companies House was seen to be a simple and straightforward process. Customers who had chosen to set up as / become a Limited Company saw the primary benefit of doing so as protecting themselves (and their family) financially should there be any problems with the business.

Setting up a business bank account was also recalled as a key part of setting up a business, however this was not typically a quick or straightforward experience. This difficulty was experienced by almost all customers who had set up a business bank account and contrasted to the relative ease experienced with their personal bank account. Customers experienced challenges in being able to secure an appointment with a high street bank to set up a business account and even when the process was underway felt that it took a lot more time and effort than they had expected. Where customers were required to take time away from running their business during core hours this was seen as time away from earning revenue or building the business up. For one business it took a month and numerous meetings to set up the business bank account, despite being assured that it could all be done over the telephone. In fact, only one customer reported being able to set up their business bank account over the telephone. Customers acknowledged that there were strict requirements for meeting regulations on money laundering but also felt that banks could be more flexible in accommodating meetings. This could be achieved by bank staff going to meet customers (rather than requiring them to come in to the branch) or offering evening appointments.

Customers' experiences bear testimony to **the importance of getting the right accountant**. The relationship between customers and their accountant ranged from being heavily reliant on the accountant for all the financial elements of running a business to solely using them to check a tax return before filing. Regardless of the level of engagement with the accountant, customers were highly dependent on them to provide reassurance that their business was compliant with tax legislation and that their financial affairs were being properly managed. Where customers had a negative experience of an accountant this led to disastrous consequences for them personally. For example, one customer's accountant had embezzled funds from his business and ultimately the business closed leaving the customer facing the loss of his investment, any profits and in debt to HMRC, as the accountant had not paid the taxes due. Having a reliable, skilful accountant seemed key to start-up customers having financial control of their business. However, there was no evidence of customers employing any particular strategies to ensure that they secured the services of the 'right' accountant. Start-up businesses may benefit from guidance on the importance of finding the right accountant, factors to consider when choosing one, and how to check that they are legitimate.

Registering with and paying taxes to HMRC was a challenging experience for customers whose experiences of paying tax had previously only been through PAYE. The PAYE system did not prepare customers for having to take a more active role in paying taxes. They had

never had to think much about their taxes before and so having to do so felt like hard work. Inexperienced start-up customers also found the different technical terms confusing. This confusion, caused by lack of understanding about the process of paying businesses taxes, led to delays. For example, a business had been using their personal Unique Taxpayer Reference (UTR) on their PAYE for staff and were then unable to submit their tax return as they did not have a business UTR. This customer found the experience frustrating and also queried why HMRC had not raised the issue about incorrect use of the personal UTR sooner.

Interactions with government departments or agencies during set up were limited to when customers identified that they needed to make contact. Contact that did take place was for practical and necessary tasks, such as for paying taxes or applying for licenses. Customers engaged with government when there was a requirement for them to do so, but did not perceive departments such as HMRC and DWP as a source of general information and advice on starting up and growing a business. Where advice was sought it was for very specific reasons, such as engaging with HMRC when information was required about how to complete a VAT return. Yet while interactions with government were minimal, there was a demand for 'official' advice from government sources to reassure customers they were taking the right actions.

Sources of advice

The findings of this research show that the sources of advice consulted by those setting up in business can be limited. There is evidence to suggest that at the point of setting up their businesses customers didn't know what they needed to know and so were not always looking for important or relevant information. When seeking advice customers turned either to trusted contacts such as friends or family or they wanted 'official' advice, from HMRC for example. There seems to be a role for a central directory or checklist of 'things to consider' or 'bodies to consult' when setting up in business which could provide links to useful information sources. One customer recalled that when he had started out being self-employed he had received a helpful pack with advice from a range of government departments about becoming self-employed.

Customers may also be deterred from seeking advice due to perception issues: Customers setting up in manual trades felt that information on setting up a new business primarily related to office-based work due to the images used and therefore had less relevance for them. Images and pictures used in promotional materials need to be as inclusive as possible to signify their relevance to all types of start-up business.

Sources of advice used by customers when setting up a business were limited to:

- **Informal networks** such as family and friends: Informal networks were used as a source of support, especially in the early stages of set-up. The level of support they are able to

provide was very variable and the final outcome of this support was often that customers escalated to a more formal source of support.

- **Business networks:** Access to business networks depended on the customer group (as outlined earlier) – that is their history of running a business and experience in the sector. Customers who had experience in their sector had a network of contacts who were able to provide either resources, business opportunities or support. However, there were limits to the support which local contacts working the same sector were happy to provide as they were effectively competitors. Customers with experience of running their own business in a different sector were accustomed to reaching out to a broader network, for example through online forums and Chambers of Commerce, or asking their existing contacts for business advice and support. Contacts in a different sector were often happier to provide support than contacts in the same sector as they were not in direct competition. Customers who were affiliated to a larger organisation, for example franchisees, were able to access support provided through the head office and previous business owners. Those customers who were new to running a business and doing so in a new sector found it hardest to establish business support networks and as such missed out on valuable advice which could have saved them money and helped them establish their business. Advice and guidance for these individuals on how to find and access networks of start-up businesses (including online forums) could help to fill this knowledge gap. Growing awareness of the regional Growth Hubs may also be a way of supporting access to business networks.
- **Government sources:** Customers were visiting GOV.UK but solely to access information from HMRC. Customers viewed HMRC in a very functional way, as being helpful to completing specific tax-related tasks or providing specific information related to payment of tax. Amongst those customers who had looked on the HMRC website the information provided was found to be helpful and the webinars were cited as particularly useful. However, there was evidence that not all customers had been able to find the information currently provided by HMRC, demonstrated by a request for training videos and specific information on how to fill out forms to set up for different types of tax and complete their VAT return. Raising awareness of existing resources could help to support customers in understanding and meeting their obligations. There was also no evidence of customers looking to HMRC for wider advice on running or setting up a business, suggesting that HMRC will need to work hard to be viewed as a source of advice on business set up and growth. Customers also seemed to view DWP in this way: there was no spontaneous mention of customers looking to DWP for advice. When probed on this, customers could not see the relevance to their business as they associated DWP with benefits and pensions not with support in setting up and running their business. Interestingly, there was also no mention of use of the regional Growth Hubs. Taken together, the low awareness and use of HMRC, DWP and Growth Hubs as sources of advice for starting up in business

suggests that consideration may need to be given to how awareness can be built of the resources to support business growth already offered by government.

- **The industry regulatory body** was used as a source of support where relevant. However, it should be noted that customers were not immediately looking to their industry regulatory body as an information source, and it was not necessarily considered until issues had been encountered which brought them into contact. This indicates that there is a role for greater publicity of the role of the regulatory body and the reasons to interact with them when setting up a business. This is particularly relevant in sectors where there is an obligation to register with the regulatory body prior to starting trading. Those new to running a business who were also entering a new sector were least likely to be aware of both the need to register with a regulatory body and the support that they could provide.
- **ACAS:** Was used for support on employment legislation and formal procedures for managing staff. This seemed to indicate a low awareness of where to turn to for official advice on staff management and HR. Again, greater publicity of appropriate information sources could be beneficial.

Challenges faced by start-ups

Challenges identified to starting up in business included:

The technical and legal requirements of entering a regulated industry: A lack of knowledge of these requirements can lead to inefficiencies or having to repeat steps of the set up process which can be costly and time-consuming. For example, one customer who set up a minibus company had to apply for his operations licence twice as he had initially applied as a limited company but his accountant advised him to set up as a sole trader initially as this would be more financially advantageous. However, this meant he had to re-submit his operations licence application, extending the process and leading to increased costs. There was also low awareness of where to go for information on the technical and / or legal requirements of entering particular industries, for example the regulatory body. As mentioned, a centralised directory of things to consider when setting up a new business could help customers start thinking about this sooner. When dealing with the regulatory body there was also some frustration about turnaround times, perhaps due to the customer mind-set of wanting to get the business up and running as soon as possible. Managing expectations of turnaround times could help to overcome this.

Accessing finance: Customers found that banks seemed to be reluctant to lend to new and fledgling businesses without relevant sector experience which made set up difficult and also posed challenges to growth. Providing start-ups with advice on how to access funding from

banks, such as things to consider when making an application and / or how to strengthen their application could support start-ups through this experience.

Cash flow: In the early period cash flow was a particular challenge, as customers needed funds to cover initial set up outlays and any business and personal expenses in the time between starting the business and it starting to make money. However, managing cash flow was also an ongoing issue, especially for customers who had high outgoings due to use of contractors. Customers who had successfully set up a business usually acknowledged that they were only able to do so because they had some financial backing, for example, were supported by a partner or had another income stream. Customers felt that having access to low cost finance and / or tax incentives for businesses in the early set-up phase could help to overcome this challenge.

Business rates: This was cited as a challenge by companies which needed a commercial, customer facing premises. For example, one business claimed that their business rates had gone up by 100% and that they faced further increases which led to the possibility of being priced out of the town in which they were based.

Communicating with HMRC: This was not always as straightforward or easy as customers would have liked. Issues caused by this were usually overcome quite quickly and did not tend to have lasting consequences. However, it was also felt that some issues could be prevented by more proactive communication from HMRC. For example, one customer was locked out of his Government Gateway account due to some changes he was unaware of and it took a few weeks for his log in details to be issued. Another customer called HMRC and it took 90 minutes and three different members of staff to resolve his issue. As noted earlier, time spent on resolving administrative issues is time spent away from bringing in revenue and growing the business so this is always very keenly felt by business customers. The customer mind-set of wanting to get on with set-up and sustain momentum also informs how customers perceive time spent communicating with HMRC. There may be ways of managing customer expectations around communication and resolution of issues, to help customers feel informed and engaged throughout the process. Customers also felt that greater centralisation of information could prevent them from needing to speak to multiple people.

Further to this, customers felt that HMRC was not always able to resolve issues as quickly as they would have liked. It took one business two months to have their partnership UTR issued, which led to them paying much more tax than was needed, leading to cash flow issues in the early days. Another business had to wait two weeks for their VAT status to be changed which was longer than they expected.

Recruitment, retention and management of staff: New business owners felt that finding the right staff for their business was a real challenge. Customers were looking for staff members who were sufficiently motivated and had the right mind-set to work in a small

business which could mean taking on multiple roles and having to be highly flexible. Customers also found managing staff turnover a challenge as losing trained staff was seen as having a negative impact on the business. There was low awareness of where customers could get advice and guidance on staff which made the process of finding the right people more challenging.

Marketing and publicising the business: This was primarily a challenge for customer-facing businesses, for example designing a website and logo and knowing where to advertise. A particular challenge of this was being able to understand which tools would be worth investing time and money in, and which were less worthwhile.

Ceasing trading

Financial pressures and performance tended to underpin customers' decisions to cease or consider ceasing trading.

Customers had found that the costs of running their business had been higher than expected which made the business unsustainable. Although these customers had experience in their chosen sector they had underestimated the costs of setting up and running their own business and of meeting the costs of entering a regulated sector. Customers in this position also felt that their sector was dominated by large competitors who could undercut their margins and so they could not price their work in a sustainable way and win business. Customers in this position felt that they should have done more research and sought more advice on the costs associated with setting up and running their business so that they were more prepared for this. Some admitted that had they been better informed at the outset, they may have made the decision not to start that business at all.

These customers had also found that the administrative burden of running their own business was higher than expected. They felt that they spent too much time on administration, and insufficient time on business development and / or doing client work which they felt made the business unsustainable. Customers considering setting up in business may benefit from a guide to the administrative tasks which they may have to complete as part of being self-employed / running their own business and about how long they could expect to spend on these each month so that they can account for this when planning how much time they expect to spend running the business.

Customers who had closed, or were considering closing, their business were ill-prepared for, and had little interest in, engaging with the tax system. This lack of preparation or understanding about what might be required meant customers found navigating the tax system hard work and time consuming. Although this experience was not exclusive to those customers who had ceased or were considering ceasing trading it seemed particularly pronounced amongst them. This lack of engagement resulted in low awareness of relevant

tax breaks, incentives they were eligible for and what expenses could be claimed. Customers would benefit from a clear and simple guide to taxes when setting up in business, including how to find out about relevant tax breaks. They may also benefit from a rough guide to how many hours per month or week they could expect to spend tracking expenses and dealing with HMRC so that they have a clear expectation of how long this will take.

Customers who had or were considering closing their business had also received poor advice from their accountant. For example, one customer felt that their accountant was unable to advise on the tax breaks and incentives available to them, which pushed up the operating costs of the business and reduced their profits. This customer was dealing with the movement of aircraft parts around the EU, so it may have been that their accountant lacked the specialist knowledge to be able to advise properly on the details of this highly technical sector. As discussed earlier, there was also an extreme case of an accountant who had embezzled funds from the customer which affected the customer's desire and ability to continue running the business. Given how heavily start-up customers relied on their accountant getting the right accountant seemed key to setting up a successful business. Customers who had a negative experience with their accountant wanted to know about a regulatory scheme or body for accountants which would have helped them choose one operating within the law. In addition to this, a checklist of questions to ask accountants to make sure they are suitable for them, including whether they have any relevant specialist knowledge, may also help customers find an accountant who can support them properly.

6. Key findings

- There were a wide range of different experiences which led customers to running their own business and as such a wide range of support and information needs. However, customers were united in their desire for official guidance when setting up in business so that they could feel reassured that the information was reliable.
- Customers interacted with government when they identified that they needed to for specific, practical tasks, but did not perceive government as a source of general advice or support for starting up in business. There was low awareness of the range of resources currently provided by government.
- Amongst those new to their sector and / or running a business there was low awareness of how to access and grow a local network of business contacts.
- Getting the right accountant seemed to be key to this for start-up customers, who were heavily reliant on their accountant. However, customers did not seem to employ any particular strategy to secure an accountant who was both registered and suited to their sector.
- Cash flow was a major challenge for start-up businesses, particularly in the early stages when funds were required to cover initial set up and any business and personal expenditure between launching the business and it starting to make money. Managing cash flow was also an ongoing issue, especially for businesses using contractors.

- Start-up customers disliked having to spend time on administrative tasks as these were seen to take them away from running and growing their business.
- Customers found that setting up a business bank account was more time consuming than expected and they often had to attend more than one meeting, in person, to do so.
- Amongst customers who had or were considering ceasing trading, this was due to financial issues. Customers felt that they had not done sufficient research into the costs associated with running a business – and that if they had they may not have decided to set up the business. Customers in this position also seemed to have underestimated the administration associated with running a business.

7. Key suggestions for developments

- **Advice and guidance:**
 - A central directory for start-up customers including a checklist of the key things to consider and bodies to consult when setting up in business would be beneficial. It would help make sure customers are aware of any legal requirements of setting up in their chosen sector and that they can easily access all the support that is available to them.
 - Start-up businesses may benefit from greater publicity of the role of industry regulatory bodies and the reasons to consult them when setting up business.
 - Raising awareness of existing government resources by bringing information together in one place which is easy to find through a simple online search could help customers to access the support that they need, while also promoting government as a source of advice for those starting up in business.
 - Start-up businesses may benefit from guidance on the importance of finding the right accountant, factors to consider when choosing one, and how to check that they are legitimate.
 - Advice and guidance for start-up customers on how to find networks of start-up businesses (including online forums) could help to them access and grow a local network of business contacts. Growing awareness of the regional Growth Hubs could also help businesses to develop local support networks.
 - Customers considering setting up a business may benefit from a guide to the administrative tasks which they may have to complete and how long they could expect to spend on these each month. This would help them to be prepared and to manage their time effectively.
- **Finance:**
 - Access to low cost finance and / or tax incentives for businesses in the early set-up phase could help to overcome cash flow challenges.

- Start-ups may benefit from advice on how to access funding from banks, such as things to consider when making an application and/or how to strengthen their application.
- Encouraging banks to be flexible about when and where they meet customers could help reduce the amount of time customers feel that they need to take away from running the business to set up their business bank account.

- **Engaging with government:**
 - Start-up customers would appreciate efforts by government departments to ensure that processes they need to engage with are as simple as possible, and queries are resolved quickly and easily.
 - Education on how to complete administrative tasks as efficiently as possible would also be welcome by start-up businesses, and promotion of existing educational tools may be needed.
 - Customers would benefit from a clear and simple guide to taxes when setting up in business, including how to find out about relevant tax breaks.

- **Communications:**
 - Communications need to reflect the start-up mind-set of wanting to get going and sustain momentum and also that they tend to think of 'before set-up and 'after set-up' rather than thinking in terms of length of time they have been trading.
 - Images and pictures used in promotional materials should be as inclusive as possible to signify their relevance to all types of start-up business.