

To: News Agent
From: Renu Rattan
Re: Setting up a News Agency – Task 1

You have chosen to set up a News Agency in Southall. You will be selling newspapers, magazines, as well as confectionary, stationary, occasional cards etc. The name of your business is 'Rattan's News Agency'.

1.1 – Fixed Costs

These costs are ones that remain the same, even when demand and sales levels change. You will have the following fixed costs:

- 1.1.1 Property/Rent – This is the cost to buy or hire the property you wish to sell your products at. This is a fixed cost, as the price of rent will remain the same no matter how much you sell, as it is not affected. This will be about £500 - £1000 a month (depending on where the property is situated), you will only need a small property.
- 1.1.2 Till/Account Books – You will need these to keep a track of sales and money (expenses and revenues). The price you will pay to buy or hire these will remain the same no matter whether sales increase or not, meaning it is a fixed cost. These will probably cost about £110 to buy, or to hire about £10 a month, you will only need one book and one small till to start off with.
- 1.1.3 Insurance – Money kept aside for if an accident (like a fire) takes place in which case you will be covered and can claim money back to help you. This is a fixed cost because insurance fees do not change even if sales do. You will normally have to pay about £200 a month. I would suggest you get a standard plan that covers fires, burglaries etc.
- 1.1.4 Counter – This will be needed to hold your till and to help serve your customers. It is fixed as you will only pay one price when you buy or rent it. It will cost about £450, or about £20 a month if rented, and you will only need one. The counter will not have to be too big as it is a small property, so I suggest a small or medium sized counter.
- 1.1.5 Shelves – You will need these to display your goods and keep them organised to help your customers find their desired products. These will remain the same price as you will be paying one price for them that will not change when sales do. These will cost about £800 to buy or £50 a month the rent, you will need medium sized and about 10 to place newspapers, magazines, confectionary, cards etc.
- 1.1.6 Advertising – You will need to advertise to make people aware of your business. The cost of advertising is fixed as it is not dependant on sales. I would suggest you go for

more local and cheaper advertising, as your target market would be the local residents, an advert in the local gazette or leader would be most appropriate, and no bigger than half a page. This will cost about £100 - £200 depending on size and place of advert. You may need to advertise for the first couple of months to get your business known.

- 1.1.7 Wages – This is what you will be paying the people/yourself for working. I suggest that at first, if you work yourself that you split the wage, where you get 50% and the business gets 50% of profits. The percentage of what you get, or pay will not change whether sales do making it a fixed cost.
- 1.1.8 Fridge – You will need a fridge to store your drinks and milk etc. You won't need a very big fridge, however may need to use it a lot in the summer, I suggest you buy one tall medium sized fridge, which will cost about £80 a month to hire, or about £1500 to buy. This will not change when sales do making it a fixed cost.
- 1.1.9 Mirror/Cameras – You will need good security in your store to prevent theft. A simple security mirror would be useful, these cost about £50, and help you keep an eye on your shop from place. However it may be better to get security cameras, you may need two of these, and will need the whole package, this will cost about £1000. These are fixed as the price does not change when sales do.
- 1.1.10 Fixtures and Fittings – This is stuff like flooring, lights etc. You will need lights to brighten your property up so people can see. I suggest two tube lights £100 each. For Flooring, you won't need too much, as you property is small, but I suggest plastic, hard flooring, as a lot of people will come into your property and carpet will probably get ruined. You can get this flooring for about £4 or £5 per square metre. This is fixed, as you will only pay one price for it.

1.2 Variable Costs

These are costs that will change when sales or demand levels change. They consist of things that are affected by how much things are used or bought. The Variable costs of a News Agent include the following:

- 1.2.1 Stock – This is what you will be selling to your customers. This is variable as the more stock you sell, the more you will buy, so the amount you spend will change. You will probably need to spend about £2 000 at first to sell, you will buy things like Newspapers, magazines, confectionary etc.
- 1.2.2 Operation Costs – These are things like electricity, water etc. that help run your store. This is variable as the amount you pay always changes, as the more you sell, the more you use them, meaning they are variable costs.

To: News Agent
From: Renu Rattan
Re: Setting up a News Agency – Task 2

Now that you know what you have to buy, you still have to get the money. You are looking at getting about £30000, £5000 for variable costs, and £25000. I have listed the following possibilities to help guide you, with where to get your money.

2.1 – Possible Sources of Finance

These are all the possible places you can borrow the money you need from.

2.1.1 A bank loan – This will be initially available to the business when it starts up (as a starter loan or (short-term) or a small business loan (medium-term)), these normally are available with business advice. This provides a lump sum borrowed from the bank. It is repayable with monthly instalments, which is ideal for the first five years (length of a standard loan). It is also a fixed source for the length of the loan. It can also be offered with a protection plan, which even though costs more, will protect your property in case of debt or bankruptcy. If you were to breach the terms and conditions you agreed to when taking out the loan, this could be bad as you may have to immediately repay the lender, which could land you in debt, or loss in personal possessions, as possessions are used as a security in case you are unable to repay the loan. A fixed interest rate will also be supplied making the repayments more costly in the long-term, but provides capital for start up costs. One problem is that most loan lenders only offer up to £25000 (see fig 1), and you need £30000, but you could always cut back on costs by hiring equipment or using trade credit (see 2.1.2, 2.1.3 and 2.1.4) or use another source of finance as well. Many banks offer businesses loans, Natwest is offering a loan of £25 000 for over a period of five years with an interest rate of 12.9 % APR, this means an extra payment of £6620.60, this is quite a big long-term cost, however does offer an easy form of finance in the short/medium-term. Fig1 shows a number of loans available for your News Agent, and Fig2 shows a selection that if you decide to take out a loan I think are most appropriate.

2.1.2 Trade Credit – Companies, like the Cash and Carrys that you will be using to buy the goods you plan to sell provide businesses with trade credit. This is a form of free credit that suppliers offer to businesses to help improve the flow of money for up to three months. However if money is paid late suppliers may not be willing to supply goods in the future, or may insist on cash in advance, in which case you could end up in debt. This would give you a bad credit reference, and may risk the chance of you being offered trade credit in the future, as most places only offer them provided that there is a suitable reference with previous money. But if you use them suitably, they could work to your advantage, as you may not need to take out as much money, and have time to make money to pay for the goods at a later date. Trade Credit can be paid back in instalments, or a lump sum, depending on the supplier, and is often interest free, so you wouldn't have to borrow £30000, but could settle with £25000 and pay the trade credit once you start to

- sell the goods. Bookers Cash and Carry, supply most of the stock a news agent would need and offer trade credit for up to 3 months, interest free.
- 2.1.3 Leasing - provides a form of medium-term credit. The business will be able to rent most of their fixed costs, such as the fridge, so instead of paying something like £1500, you could pay £75 a month. Same with property, instead of having to pay something like £25000 for property, you can rent for about £500 a month. However you may get into a situation where it may have been better to buy something as oppose to renting it as you may find yourself in debt with someone, or if it gets damaged, you may have to pay the whole price. But renting things is good to use when you start up, as it gives you a lot of spare money, in which you can invest back into the business, or even save up to buy what you are renting, again this will be beneficial if you take out a bank loan as you can settle with the £25000, as oppose to having to get the full £30000. If you decide to hire everything instead of buying you would not need as much money and would need to hire most of the costs listed in Task 1, except for the things that you are unable to hire, like advertising, and operation costs, and some fixtures and fittings.
- 2.1.4 Hire purchase - This is a form of medium-term finance. This is where you can buy your own costs and pay for it by giving an initial down payment and then paying in instalments over normally 3-5 years. The cost is then spread out over a period of time and more manageable. What you wish to buy is officially your property once the final instalment is paid, however missing an instalment could create problems as companies will repossess the goods, and will return no money. This method of payment is also quite costly in the long-term, as extra is paid but still offers an easier form of payment.
- 2.1.5 Borrow Money from a Friend/Relative – This is where your friend lends you money, or may invest into your business. This is good, but for small amounts as you may have trouble gathering large amounts of money from your friends. You must explain to your friend the risks of him investing money. Borrowing could also be putting your relationship at risk, as you may not be able to pay the money back, or give it to him when he needs it. However it is a good idea as you can borrow it from someone you know and who already knows and trusts you, interest free, which is quite beneficial in the long-term.
- 2.1.6 Overdrafts – This is a form of short-term finance and is renewable. It is when a bank allows current accounts to operate within a pre-agreed debt limit. They are very flexible (within the agreed limit), and interest is only charged on amount borrowed, however these are very high, and do not stop being added on until full payment is paid. They are good to buy last minute things, like stock with when you are making money, however banks are allowed to demand full repayment at anytime, and may require security with personal guarantees (i.e. personal property – house, possessions etc.). Natwest are offering you an overdraft with a rate of 1.37% per month, or 17.80 per year. By looking at these figures that my research showed, we can see that it is more beneficial to take an overdraft if you are going to pay it back in matter of months, as it can be quite costly to take it out over a matter of years.

- 2.1.7 Mortgage – This is a form of long-term finance. It is money borrowed against your house, and can be a fixed source for up to 25 years. They offer much greater amounts than the bank, so you would be able to borrow the full £30000 you need and are very flexible, despite how rates are very competitive rates, they could fluctuate, and you could be left with large debt. This would not be very ideal, as you could be at risk of losing your house if you cannot keep up payments, and is really more ideal for buying houses with rather than News Agents.
- 2.1.8 Government Grants – This is a source of partial funding. These are grants given by authorities to a business normally for a particular reason like, to employ more staff or for environmental reasons. The grant normally relies on the area and nature of the business. This is a good source, as they do not need to be repaid as long as all the agreements are met. However they will not really be offered to a News Agent, as it is a private business, and also isn't offering mass employment or benefiting the environment or developing a certain type of business, therefore is not eligible for a government grant.

To: News Agent
From: Renu Rattan
Re: Setting up a News Agency – Task 3

Now you have considered all the possible sources of finance, you have to choose which one you plan to use.

Looking at the possibilities, I think that it would be ideal for you to use the bank loan. I do not think you should go for an overdraft as your main source of finance as it is too expensive for a medium-term source of finance, and I think a mortgage is also not suitable as you are not borrowing a large amount, for a very long-term as this would be more beneficial if you were. Even though taking out a loan means that you will be unable to get the full amount you needed, you can get back on costs by using things like Trade Credit, Leasing and other alternatives. Even though the loan is quite costly in the long-term as you have to pay interest, it is better than a mortgage or an overdraft as it has much lower interest rates, and is better than borrowing money from a friend interest free, as you will not be putting friendships at risk. Even though security will be needed by the bank when taking out a loan, like a house or personal possessions, in case you are unable to keep your repayments, however many loans offer protection, which even though cost more, protect your house or personal possessions.

As you are setting up a rather small business, and plan to be making money as soon as you open up, taking out a loan would be most appropriate. You will need to borrow the maximum £25000 from a bank and have to pay it back over a five-year period. I thought five years as it seems to be a long enough period to help get started and to have a steady source of finance through what may be the difficult years as there is less chance of survival in the first few years or so. However loans are available from 1–7 years, with interest rates that vary (1 year having a cheaper rate than 7 years). If you take a look at fig. 1, there is a list of loans available for £25000 for five years, which would be a suitable amount for you to borrow, and over a suitable amount of time.

Looking at fig.2 I have selected the loans I think are most appropriate, I have not selected the other loans that are listed in Fig 1 as they are unsecured loans, like the Lombard Direct and Loan One in which case if you fall into debt you will have to claim bankruptcy, whereas the ones I have selected do ask for security which even though you may lose personal possessions, you will not need to claim bankruptcy. I also picked those that offer protection, which again protects you from bankruptcy, but also reduces the chance of you losing personal possessions. I also picked those that offer business advice (samples of the web pages talk about the advice given I have shown in my research). By looking and taking all the possible loans into consideration, I suggest you go with the Natwest Personal Loan, I have a booklet in the research which shows the figures more closely, showing the charge with protection, however the information in the booklet only goes up to £15 000, so I have also printed off pages from the website showing the information you require. I chose Natwest over the other possible loans, as even though they all offer business advice and protection plans, by looking at the research I can see that Natwest even though it has a higher rate, its protection plan was cheaper than others (13.9% APR in comparison to Lloyds TSB 15.9% APR), and also the quality of the business advice was much better, whereas most of these banks just give you advice on finance, Natwest look into helping your business personally, they help you devise a business plan as well as help in controlling your finance.