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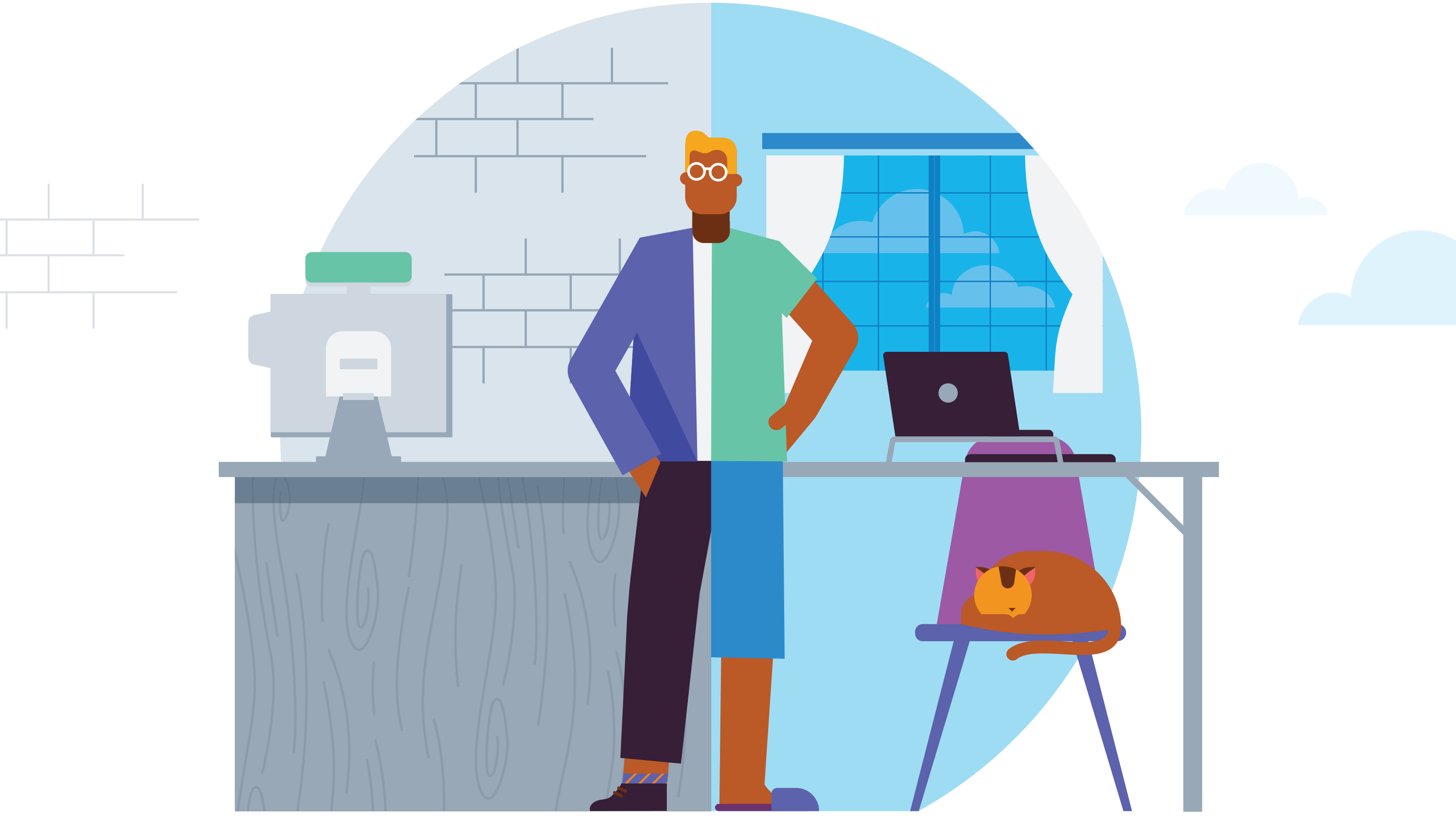
How to start an online business



Same, same... but different

Starting an online business is a lot like starting any sort of business, but there are important distinctions. Costs are generally lower (yay!), but finance is harder to get. Forecasting is tricky. Marketing is super experimental, while transaction fees and shipping are more of a thing.

This guide explains how starting an online business is different, but also references our guide on how to start any kind of business where it makes sense to.

Steps to starting an online business

1. Evaluating your idea
2. Planning and budgeting
3. Building your business
4. Learning digital marketing
5. Getting paid online
6. Dealing with fees and taxes
7. Finding funding
8. What future you will be thinking

Pros of online business

Lower startup costs

"You cut the costs of bricks and mortar, so it's much less expensive to get going."

– Marc McKeown, online business consultant, FortBrave

Flexibility

"It's allowed me to create more products with different tiers of service."

– Olivia Park, online business owner, Olivia Park Coaching

Resilience

"Online accelerated during the pandemic, even as other types of businesses struggled."

– Shaheman Farid, online business consultant, Boobooks Accountants

Cons of online business

Demands on marketing

"You're doing well if 2% of website visitors buy, so you will need a lot of traffic."

– Marc McKeown, online business consultant, FortBrave

Hidden costs

"People forget that merchant service providers and marketplaces take a cut of each sale."

– Shaheman Farid, online business consultant, Boobooks Accountants

Forecasting cash flow

"We could only do a 2-month forecast, our first few years. We had no idea what would happen on day 61."

– Michael Yared, online business owner, Echobind

1 Evaluating your idea

Lower startup costs and overheads make it easier to launch an online business, but you'll still invest a ton of effort. "There's no such thing as a side hustle," says ecommerce consultant, Marc McKeown of FortBrave. A little market research can help tell if that effort will be worth it. You don't need a maths major or a stack of cash to do the research and test your idea.

Help evaluating your idea

How to do market research

Reflect on the type of person that you think needs your product. Learn more about them through desk research or maybe even by running surveys. Offering a prize for their time can help. While chatting, ask what they like about your competitors.

From Xero's How to Start a Business

How to do competitor analysis

Your competitors are making money doing the thing you want to do, so there are probably some lessons to learn there. Maybe you can even pinch an idea or two. It's definitely worth pondering what they do well, and where you can beat them.

2 Planning and budgeting

Online startups often have lower costs and unpredictable income compared to traditional startups. That combo can affect how you plan (hint: you'll need to be super flexible). Let's learn why planning to start an online business is different.

Lower costs

For retailers

"You can start an online retail business for 20K now. So people are increasingly able to self-finance."

– Shaheman Farid, online business consultant, Boobooks Accountants

For services

"Rent goes away and tech costs are the same because you need online work tools anyway."

– Michael Yared, online business owner, Echobind

Unpredictable income

It's almost impossible to forecast income," says online business consultant, Shaheman Farid. "We suggest clients go in with three months of working capital and base their forecasts on that first quarter."

What does this mean for planning?

Lower costs may mean less debt for the business owner, which relieves some pressure on your financial planning. And that's a good thing given how hard it is to estimate income. Because of all this, online business plans need to be fluid and open to a lot of possibilities. A shorter business plan can be useful. It gives you a roadmap, but is easier to update.

Help planning and budgeting

One-page business plan

How to start an online business without first writing a book about it.

Startup budgeting

Learn how to pull together a rough financial plan.

From Xero's How to Start a Business

How to set prices

Get your head around pricing strategies.

From Xero's How to Start a Business

3 Building your business

A business is more than an idea. You need to actually build something. It might be a shop, a service-delivery model, or a product like an app. When it comes to the practical and technological side of how to start an online business, these resources can help.

How to open an online store

- **Two quick ways to start selling online**
  How to start an ecommerce business ASAP (infographic).
- **Shipping for small business**
  Learn the latest trends in online delivery, including how to pay for it.

How to build an app

- **How to make money from an app**
  Ever wondered what it takes to build an app? Wonder no more.

How to be a remote service provider

- **How to set up a remote office**
  What you need to serve clients online.

You can provide consulting or training services from anywhere nowadays. Michael Yared's virtual agency has been collaborating online for years and he prefers it that way. "Digital brainstorming boards capture ideas from everyone – not just the loudest or highest-paid people in the room. Plus remote working encourages better documentation of your methods because so much information is exchanged in writing."

4 How to learn digital marketing

In the online world, people don't walk by your shop by chance. You need to earn each and every visit to your website – and only about 2% of those visitors will buy anything. Starting an online business requires some clever marketing. Be prepared to put in quite a bit of effort.

> **"We encourage clients to keep 40% of their startup budget for marketing. We'd spend that in the first three months to see what things work and make a plan from there."**
>
> – Marc McKeown, FortBrave

Take care in how you spend that money. Things can go badly if you don't. "I've seen failed campaigns chew through thousands without getting a single sale," says Shaheman Farid of Boobooks Accountants.

Pick your target

"You really have to niche down when you're online," says Olivia Park of Olivia Park Coaching. "Create content with a very specific customer in mind, or else it won't resonate with anyone."

Try stuff

"There's no telling what will work and what won't," says digital marketing expert, Ben Charlton of Air8 Digital. "You have to experiment. But you can do that without spending a fortune."

Help with digital marketing

How to do digital marketing

Learn what things you can do, and how to choose between tactics.

How to manage your online reputation

Get your head around pricing strategies.

5 How to set up online payments

No matter what you sell, you'll be doing it remotely. So how do you get the money? These guides explain how online payment works.

Retailing goods

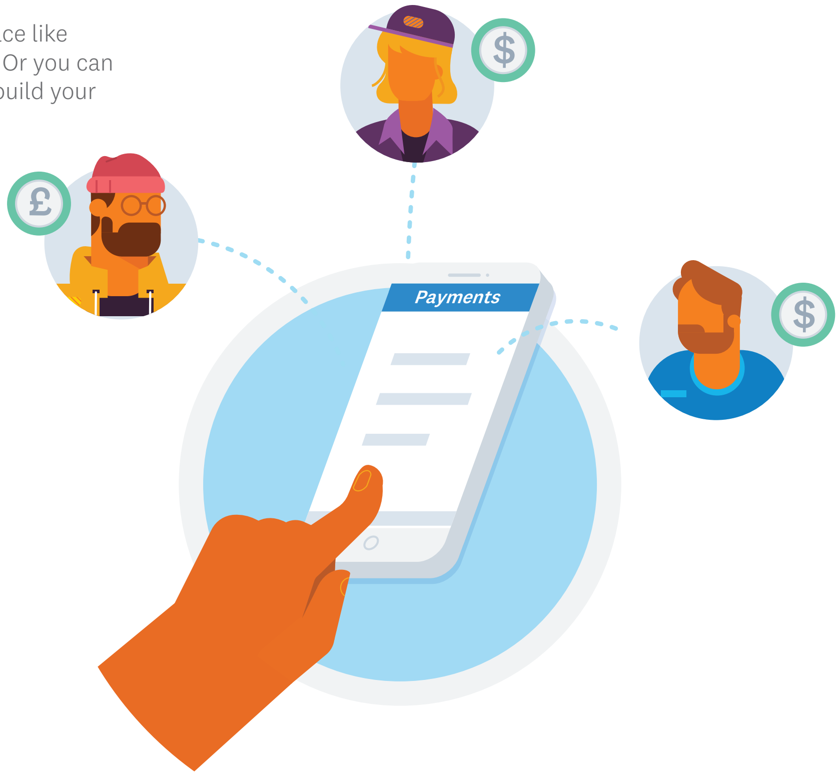
You can stick your products on a big marketplace like Amazon or Alibaba and start selling tomorrow. Or you can get an off-the-shelf ecommerce template and build your own shop quite easily.

Selling services (invoicing)

If you're delivering services online, then why not get paid online too? You can email invoices with a 'pay now' button. Customers simply click it to pay using a card or ACH service.

Subscriptions

You can stick your products on a big marketplace like Amazon or Alibaba and start selling tomorrow. Or you can get an off-the-shelf ecommerce template and build your own shop quite easily.



Make debit card the default payment method for customers. The transaction fees are generally lower and the money often appears in your bank faster.

– Shaheman Farid, Boobooks Accountants

6 Dealing with fees and taxes

There are lots of niggly numbers floating around an online business. Each and every sale can be subject to transaction fees, taxes, and shipping charges – so be prepared.

Transaction fees

Transaction fees can chew through almost 5% of your sales revenue, which is a lot. Each fee must be recorded against the corresponding sale. If that sounds like too much work, software like A2X can help.

Shipping charges

Many retailers give free shipping to customers. You can do this by building the cost into your prices or paying it out of the business expense account. Either way, you'll want to put a plan in place.
Learn about shipping for small businesses.

VAT

Once your revenue passes a certain amount, you have to register for VAT. You'll need to increase prices by up to 20% and pass the extra money along to the government. Learn about VAT.

"We tell clients to factor it into their prices from the start. That way they don't have to hike prices when they register – and they get that extra margin in the meantime," says online business consultant, Shaheman Farid of Boobooks Accountants.

Help with accounting

Small business accounting

Get your head around the most basic of basics.

From Xero's How to Start a Business

7 How to fund an online business

Most experts agree that banks are unlikely to finance an online startup – unless you already have a strong business track record. So if you need extra money, that leaves friends and family, angel investors, or crowdfunding (if your idea is super interesting). Learn more about those options in these guides.

Friends and family loans

Plenty of successful businesses started off with a loan from friends or family. And they can be more accommodating than banks. But it's worth being super clear on the terms, and writing everything down.

What are angel investors?

Crowdfunding is like a popularity contest for your idea. If the crowd likes what you're doing, they might give you a loan or buy a stake in your business. You'll need an appealing idea and a good PR plan.

How crowdfunding works

Angel investors are individuals who will put their own cash into a new business, in exchange for an ownership stake. They will generally have other investments (or their own business) in the same industry.

8 What 'future you' will be thinking

Today you're wondering how to start an online business. What will be on your mind in a few months' time?

We asked people who've had an online business for less than six months what they worry about. Here's what they said.

59% have trouble calculating fees and taxes on each sale

58% struggle with forecasting and managing cash flow

48% find it tricky to manage multiple online sales channels

Get help with all of this

You know who knows how to start an online business? Accountants and bookkeepers do. They do this stuff for a living. Find someone to help in our advisor directory.

Find an advisor

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