

STARTING YOUR OWN BUSINESS

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STARTING YOUR OWN BUSINESS

One of the most common reasons for business failure is inadequate planning. This often results in people going into business with too little capital, taking on unprofitable businesses or having unexpected problems. This guide highlights points you should consider before starting a business.

LOOKING AT YOURSELF

In many cases the success of a small business depends as much on the skills, initiative and capacity for work of the owner as the business itself and the economic climate. Listed are some behavioural characteristics which many successful small business operators have. Try to answer these questions honestly.

<i>Are you a self starter?</i>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
<i>Are you independent?</i>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
<i>Do you like to work alone?</i>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
<i>Are you prepared to work long hours?</i>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
<i>Do you remain calm when things go wrong?</i>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
<i>Are you healthy?</i>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
<i>Can you accept responsibility?</i>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
<i>Are you decisive?</i>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
<i>Can you handle constant interruptions?</i>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
<i>Are you optimistic?</i>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
<i>Can you accept change readily?</i>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
<i>Can you live with an uncertain future?</i>	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>

If you have answered no to more than two of these questions, you should re-think very seriously or consider getting a partner whose strong points will compensate for your weak traits.

YOUR FAMILY

If you decide to go into business, you may not have the time or energy to be as involved in family activities as you are at present. Your income may drop, at least in the short term, and your family assets may be required as security for borrowing. Hence family support is critical to the success of a small business.

Does your spouse/partner Yes No

support your wish to go into business?

Will he/she support you emotionally and financially? Yes

Are you / is your family prepared to go without holidays and luxury items for some time? Yes

Can you put your work before your family during working hours? Yes

Are you and your spouse/partner prepared to risk financial loss? Yes

Have you discussed these points with your spouse/partner? Yes

<input type="checkbox"/>		<input type="checkbox"/>
<input type="checkbox"/>	No	<input type="checkbox"/>
<input type="checkbox"/>	No	<input type="checkbox"/>
<input type="checkbox"/>	No	<input type="checkbox"/>
<input type="checkbox"/>	No	<input type="checkbox"/>
<input type="checkbox"/>	No	<input type="checkbox"/>

If you have answered no to more than two of these questions, you should seriously re-think your decision to go into business.

YOUR EXPERIENCE

Building a business on a product or activity of which you have some knowledge can improve your chances of success. Understanding the business environment and knowing why some firms in the industry fail when others succeed can give you the edge.

A knowledge of basic business management techniques is important. If you have not had previous management experience, consider attending courses at your local Business Enterprise Centre or TAFE College. Many different Agencies offer courses in small business management in most main centres by correspondence and course work.

WHY GO INTO BUSINESS?

It's important to recognise why you want to start a business. Common reasons are:

- to earn a better living
- to be independent
- to do something different
- to create a job for yourself
- as an investment in your future.

Your reason will affect how you will run the business, and what reward you will seek for your efforts. Remember, success is only relevant to your own needs and expectations.

YOUR PERSONAL NEEDS

Regular Monthly Expenses:

<i>House Payments</i>	\$ _____
<i>Loan Payments</i>	\$ _____
<i>Telephone, Electricity, Rates</i>	\$ _____
<i>Food, Clothing</i>	\$ _____
<i>Entertainment</i>	\$ _____
<i>Transport</i>	\$ _____
<i>Other</i>	\$ _____
= Monthly Income Needed	\$

This is the minimum amount that you need to withdraw regularly from your business. This may not be possible during the initial start-up period, so you need to consider how these commitments can be met. This may be from savings not invested in the business, from your spouse's earnings, or from additional borrowing.

You should plan for the business to make a profit greater than this once the start-up period had passed.

SHOULD I BUY OR START AFRESH?

Many people feel that starting their own business will be cheaper because they will not have to pay for goodwill. There are benefits in buying an existing business, providing the price asked is sensible. It has products and customers, and there are records to help you assess its potential. A franchise is another way to start up a business based on someone else's success.

PREPARING A BUSINESS PLAN

Whether you decide to buy an existing business, buy a franchise or start afresh, the same issues need to be considered in order to prepare your Business Plan. This plan can be informal handwritten notes or a more detailed document. Use it to explain your plans to lenders, suppliers and partners. Once you are in business refer back regularly to ensure you are sticking to your plan. The Business Enterprise Centre has more information on business planning.

THE PURPOSE OF PROFIT

Profit is needed to:

- reward the owner for working in the business
- reward the owner for investing in the business
- replace assets
- finance the increased working capital

All too many business owners do not plan to make an adequate profit.

Use this exercise to calculate what your minimum profit must be to meet these requirements. If the business you are considering does not appear to have the potential to produce this profit within a reasonable period (say 1 -2 years) then maybe it is not the business for you.

<i>What is my profit target?</i>	<i>Target</i>	<i>Example</i>
<i>1. Decide on a reasonable salary for yourself</i>	_____	\$30,000
<i>2. If your spouse will be working in the business add a wage for him/her</i>	_____	\$16,000
<i>3. If you didn't start up this business you could invest your money. Investment x Average interest rate (eg. \$30,000 x 12 1/2%)</i>	_____	\$3,750
<i>4. Your plant, fixtures and vehicles will need replacing say every 3 years. Plan to meet these replacement costs out of profits. Divide the present value of these assets by 3.</i>	_____	\$6,000
<i>5. Inflation causes your working capital needs to rise by say 10%. This has to be financed out of profits. Current working capital x 10%. (eg. \$10,000 x 10%)</i>	_____	\$1,000
<i>6. Financing Growth. A reasonable growth rate is 5%. To calculate the money needed to finance this growth Investment x 5% eg. \$30,000 x 5%.</i>	_____	\$1,500
<i>Your Profit Margin</i>	\$ _____	\$52,250

CHECKLIST OF ISSUES TO COVER

Business Name and Ownership

- The name of the proposed business and its location.
- The legal structure and ownership - eg. Company, Partnership or Sole Trader.

- The time commitment of the owners - full or part time.
- (The Business Enterprise Centre can help you with business name registration and information on trading entities).

Your Product

- The product, process or service - what business are you in?.
- The special features such as design or technical sophistication which will create consumer appeal, and improve its chances of success. Include diagrams, design specifications or pictures which will help those assessing your proposals get a better idea of your business.

Your Market

- The main customers and where they are located.
- The size of your market.
- The share you will aim for.
- The growth projections for your market - remembering both size and location.
- Your competitors. How you rate their businesses.
- Your competitive advantage.
- Include brief details of the research information which has helped you determine these market characteristics.

How You Will Market Your Product

- Summarise your marketing plans - particularly those creative ideas which will help you launch and sell your product or service.
- What sales, promotion and distribution methods you will use.
- What you will charge for your product or service.
- How you will package your product. Bear in mind your pricing policy and the market's characteristics.
- What help you will require from advertising agencies, etc.
- What the initial marketing costs will be. (Include these later in your calculation of establishment costs.)
- You need to calculate on-going costs and include these in your budget.
- (The Business Enterprise Centre has an informative "Marketing Kit" available).

Production (For Manufacturers/Services)

- Describe the production methods used to produce the goods or provide the service. Include details of any subcontracting involved.

- How much you will produce in the first month, 6 months, 12 months, and how much it will cost.
- Where you will obtain materials and how readily available they are.
- Describe the usual payment terms. Cost estimates should be included in your budget.

Purchasing (For Retailers)

- Where you will obtain the goods you will sell.
- Describe the frequency of supply and the usual payment terms. The value of purchases should be included in your budget.

Employment

List your management supervisory and workforce employment requirements and describe how readily available they are. Calculate the costs and include these in your budget, including all 'on costs' such as superannuation, FBT, etc.

Breakeven

Prepare a schedule for the start of your business from arranging finance, to starting operations through to the approximate date when your business will be breaking even.

Management

Detail the management and organisation expertise you can contribute. Include experience gained outside of work with various organisations. Detail your workskills, experience and qualifications related to your product, process or service. List any plans you have made for training to improve your management skills.

Consultancy Services

Detail the consultancy services you will be using. eg. accountant, solicitor, banker, others.

Business Records

Outline the records that will be kept. Include regular control reports and profit statements. Show who will prepare these.

Establishment Costs

Refer "Budgeting for Start Up Costs"

You will need to find out and list the costs involved in establishing the business. Enter the figures on the financing plan.

Fixed Assets:

Buildings (including alterations)
Plant (including installation)
Equipment
Fixtures and fittings (including refurbishing)
Vehicles

Establishment Costs:

Tools
Insurance
Deposits and bond payments
Licences and permits
Advertising and Promotion
Stationery
Consultancy Costs

Stocks - You will need initial stocks to produce and sell your goods or service.

Raw materials and components
Packaging materials
Demonstration samples for sales promotion
Goods for resale

Initial Costs for Labour and Staff:

Advertising for staff
Training staff and self
Commissioning time
Protective clothing

Working Capital Needs

There are many formal ways to calculate working capital but as a 'rule of thumb' allow all your start up costs including stock plus 3 months operating costs including stock purchased and personal drawings.

Remember, be honest with yourself. Most businesses fail because they simply 'run out of cash'.

WHAT ARE YOU PUTTING INTO THE BUSINESS?

Assets Contributed

Show what assets you would be putting into the business - equipment, buildings, vehicles at approximate current value, less amounts of any existing loans on these items. What are the interest/repayment arrangements on these loans? (eg. monthly amount and length of terms.)

Cash Contributed by Owners of Business

List sources of all contributions and dates they would be available.

Materials Contributed

List any raw materials, components or saleable products which would be contributed to the business.

Time and Expertise Contributed

Estimate how much time is involved in researching and developing the product, process or service and its market. Show what this time is worth (eg. at your current hourly pay rate). What costs were involved in obtaining business training or experience relevant to the proposal (eg. university extension of TAFE course, or any unpaid time spent learning management skills)?

Financing Plan

<i>Use of Funds:</i>	
<i>Land and Buildings</i>	\$
<i>Plant and Equipment</i>	\$
<i>Vehicles</i>	\$
<i>Pay/Lease Costs for ? months</i>	\$
<i>Establishment Costs</i>	\$
<i>Initial Staff Costs</i>	\$
<i>Pay Personnel for ? Months</i>	\$
<i>Repay Loans for ? Months</i>	\$
<i>Working Capital</i>	\$
<i>TOTAL</i>	\$

<i>Source of Funds</i>	
<i>Less Your Contribution</i>	\$
<i>Assets</i>	\$
<i>Cash</i>	\$
<i>Materials</i>	\$
<i>Balance To Be Sought</i>	\$

As a general rule you should aim not to borrow any more than the amount you have contributed, and borrow only if adequate security is available.

Budgeting and Cash Flow

You will need to calculate the cost of doing business throughout the year and the sales you can conservatively expect. This information is shown in a budget. You will then need to estimate when the cash will be coming in and going out of the business over a year. There may be seasonal peaks. Cash flow planning enables you to plan for periods when cash shortages might occur. Your Business Enterprise Centre has information and guides for cash flow planning.

The funds required to establish a business vary greatly from industry to industry. You should prepare a budget and monthly cash-flow for the first year and ideally yearly for the next two years before you seek loan money. Consider what security you will offer for these loans.

CONTINGENCY PLANNING

Summarise how you would handle a shortfall in sales and cash receipts. This is a frequent problem in small business operations - have you some collateral that could be used to secure a loan or overdraft?

RISKS AND REWARDS

Running a small business is a high risk occupation. However it can also be a challenging and satisfying way of life.

Careful planning before you start can help make the risks manageable and the rewards achievable.

STATISTICS CAN HELP

A Small Business Consultant recently advised two people planning to set up a retail clothing shop. They had decided to specialise in casual wear for men and women (15 - 30 years) and were concerned that sales might not be high enough to produce a reasonable income.

The number of people in that age range in the town was found from the Bureau of Statistics. Estimating the average person spent \$800 each year on casual wear, they calculated that annual expenditure on casual wear in the town. They decided which of the clothing retailers were their competition and assessed their strengths and weaknesses. Based on this evaluation, they estimated they could get 20% of the market, a turnover of \$200,000.

They were then able to calculate the level of stock they should hold and the finance required to set up the business. Comparing this with their cash contribution and security available, they decided that borrowing would not be excessive and decided to approach their bank for the extra funds they would need.

The Consultant showed them how to estimate their profit based on these assumptions. They could then decide if the venture would be worthwhile for them.

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