

Starting your own Small Business ?



Western Cape
Government
Economic Development
and Tourism

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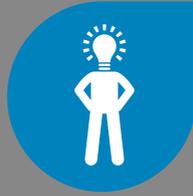
RedTape
Reduction

Introduction

Starting your own business can be very difficult, challenging and frustrating, with many risks involved. However, it can also result in enormous rewards. In order to become a successful entrepreneur, you need to possess zeal, tenacity, optimism, innovation and have an appetite for risk. The first question you have to ask yourself is why are you starting your business and the answer to that question should be your motivation. We will outline some of the characteristics of an entrepreneur, the factors that determine a successful entrepreneur, challenges and risks of starting a business, the key guidelines towards starting a business, and the business structures that an entrepreneur can choose to establish.

This booklet provides you with some thought-provoking questions and considerations that you will have to address before starting your business. These questions are overlooked at times and people think that just because they have a good idea, their business will be viable. This booklet allows you to reflect on your idea so you do not ignore the obvious pitfalls.

INNOVATION



TENACITY



ZEAL



THE
SUCCESSFUL
QUALITIES
OF AN
ENTREPRENEUR

OPTIMISM



**EMBRACE
RISK**



Are you a future small business owner?

When considering whether or not you want to take up the opportunity of starting or running a small business, there are a number of factors you may want to consider:

- Owning or managing your own business implies that at the start up stage you will take responsibility for all aspects of the business, such as sales, accounts, purchasing, production, administration, etc.
- It also implies that you have the necessary skills required to execute these responsibilities. Are you able to sell and market your business, address financial book keeping requirements (monthly and annually) address government requirements and the potential red tape involved.

It is important that you answer these questions as honestly as possible. The road of a small business owner is not an easy one, but it often rewards those who risk the venture.

You will need to develop or improve on these skill sets if they don't already come naturally to you.

TYPICAL CHARACTERISTICS OF SMALL BUSINESS OWNERS INCLUDE:



SELF-DISCIPLINE

Because you will ultimately be responsible for decision making.



SELF-MOTIVATION

This will ensure perseverance in achieving your business goals and objectives.



GOOD PLANNING AND ORGANISATION SKILLS

In order to mitigate the risks involved.



INNOVATION

Innovation is required to ensure that your product or service is distinguishable from competitors in the market.



NETWORKING SKILLS

To gain more knowledge about the industry that you want to operate in and how it relates to other markets.



PROBLEM SOLVING SKILLS

Be the expert on your own business.

REASONS **TO** START A BUSINESS:

You get to do something you enjoy.

You are your own boss.
You benefit directly from the work invested and from profits earned.

You get the chance to employ others, improve their lives and contribute towards the economy.



REASONS **NOT** TO START A BUSINESS:

Others have started and are now successful.

You're not willing to commit 110% of yourself to the business.

Knowing that you might fail publically and personally.

You do not want to work.
Operating a business is full-time work.

You don't have patience.
Success (if ever achieved) takes time.



Challenges and risks of starting a business

Starting a business can be very daunting. Therefore, there needs to be a degree of awareness before starting a business. Understanding potential risks and challenges, and how to avoid them, can help to mitigate some of the difficulties new business owners will face. Below are some examples.

CHALLENGES



Developing the business idea and the vision – this is normally the first challenge faced by an entrepreneur. It requires some creativity and the ability to find innovative solutions.



Raising capital for your start-up – potential small businesses must be able to convince investor(s) about his/her own business idea. This is very challenging because you are trying to sell something which does not yet exist.



Finding the right business location – you will need to find a location that is located near markets and suppliers, and is also suitable for your business operations.



Sourcing required human resources – the business will have to consider what its skills requirements are, and link them to a good recruitment strategy.

CHALLENGES (cont.)



Threats from competition – competition is a constant challenge. It will keep you predicting what competition in the market looks like in order to be more creative in gaining a competitive advantage.



Unforeseen disasters – despite all the planning in the beginning, unforeseen events, such as bad debts, government red tape, lawsuits and resignations, will happen and you will need to find a solution for them.

RISKS



Insufficient funds – many financial institutions and entities may be reluctant to lend money to a business that lacks a proven track record.



Utilising your own capital – some entrepreneurs are not privileged enough to get start-up funding from investors and are forced to fund themselves, which is a big risk if the business fails.



Reliance on human resources – when starting a business you will need to rely on the performance and abilities of employees, particularly when they are managing the business in your absence.



Illness – in the case of a sole trader, starting a business is risky because the operation of your business is wholly dependent on you.

If you have considered the challenges and risks and are still as keen as ever to start a business, you next need to assess your business idea.

Assessing the viability of your business idea



In testing the viability of your proposed idea you may want to check whether you can answer the following questions:

- **What are all the advantages or benefits of the idea?** Is there a real need for it?
- **Have you established some of the problems or difficulties your idea is expected to solve?**
- **Does your idea satisfy a consumer need in the market,** or does the need have to be created through marketing and advertising efforts? What would the degree of these efforts be?
- **Is your idea based on an entirely new concept,** or is it a new combination or adaptation?
- **What immediate or short-range gains or results can be anticipated?** Are the projected returns adequate? Are the risk factors acceptable?
- **What long-range benefits can be anticipated?**
- **Have you checked the idea for faults** or limitations?
- **Are there any problems the idea might create** (e.g. will it result in any environmental impacts?) What are the changes involved?
- **Have you considered variations or alternatives?**
- **Does your idea have an inherent marketing appeal?** Is the market ready for it? Can customers easily access it and can they afford it? Why would customers want to buy it? Is there a timing factor?
- **What is your competition doing in this area?** Can your business compete?
- **Have you considered the possibility of user resistance** or difficulties?

There are many methods available for evaluating the viability of your idea. You should select the criteria that best suit your needs, depending on the type of business you intend to start. These considerations also raise the importance of undertaking market research.

How to research your market

To start and run a successful business you need to be aware of your potential and existing customers and the market you intend to operate in. Market research is an important tool for all businesses (e.g. government statistics, trade publications and industry associations). Statistics and other market research can assist you in making informed decisions about your market, your customers and their needs, as well as giving you a better insight into your competitors. This improved understanding of your market can help you better focus your marketing efforts, and make the most of available opportunities.

Preparing a business plan

Your business plan is the blueprint for your business. It should give you a clear view of what you are aiming for, as well as your business's strengths, weaknesses, opportunities and threats (SWOT analysis) in your business environment. Use your business plan as your map – like all plans, it will not be cast in stone, but will be subject to constant reviews and changes. Try to prepare a comprehensive but succinct plan. This will make it easier for investors and lenders to understand and comment on it.

Your business plan must explain the following:

- **What you intend doing**
- **How you will do it**
- **When you intend doing it**
- **Why you believe the venture will succeed**

MY BUSINESS



WHAT

I intend
to do

HOW

I intend
to do it

WHEN

I intend
doing it

WHY

I believe
it will
succeed

Preparing a business plan

Your business plan could be compiled in the format below. Simple examples are provided as a guide, but cannot be taken as sufficient for a complete well-written business plan.



PROFESSIONAL-LOOKING FRONT PAGE AND CONTENTS PAGE

- Name of the business (e.g. Careline Shuttle Services)
- Your business information (e.g. Kim Buthelezi, 12 Green St., Nyanga, Tel. 021 668-6000, etc.)



EXECUTIVE SUMMARY

The executive summary is the most vital part of selling your business plan.

- Description of product (e.g. shuttle service between Cape Town Airport and hotels in the CBD).
- Why the business venture will be successful (e.g. will provide 24-hour, safe, door-to-door pick-ups and drop-offs and secure exclusive rights with ABC hotels).
- Short, medium and long-term objectives (e.g. objectives are to initially secure the CBD market and then expand to a national level).



BUSINESS DESCRIPTION

- General description of your business (e.g. shuttle service between airport and CBD, operating 24 hours, three vehicles).
- Type of ownership (e.g. sole proprietor, one member).
- Uniqueness of the product (e.g. 24-hour operation, exclusive rights with ABC hotels).



MARKETING PLAN AND STRATEGY

- Target market (e.g. foreign tourists requiring reliable transport from the airport to accommodation and return).
- Competitors strategy (e.g. most competitors charge low prices, but have a low reliability rate and only operate from 08:00 to 18:00).

- Pricing, product, promotion and distribution strategy (e.g. pricing will be higher than that of our competitors, but will be a more reliable 24-hour service operating with three vehicles).



FINANCIAL PLAN AND STRATEGY

- Financial forecasts: Profit and loss (show calculations of expenses vs. income), cash flow (show monthly inflow and outflow of cash), break-even analysis (show how many clients must be transported or trips undertaken to cover costs).
- Source of funds (e.g. the owner will be contributing R80 000 and a family member has agreed to contribute R20 000 as a soft loan; a further amount of R30 000 will be requested from the bank).
- Use of funds (e.g. to purchase three mini-buses, office furniture and salaries). Security offered (e.g. the owner will offer his/her house as security for any loan).



OPERATING PLAN AND STRATEGY

- Staff component (e.g. the owner, three drivers, a receptionist).
- Suppliers (e.g. ABC Hotels, CBD accommodation providers, tour operators).
- Description of the manufacturing/distribution of the product (e.g. vehicles will respond from call centre once request has been received; clients will be picked up at point A and dropped off at point B).



CONCLUSION

- Motivation as to why business will be successful (e.g. we offer an excellent service with exclusive contracts with the ABC group of hotels.).
- Motivation why finance should be granted (e.g. we have thoroughly researched the market and are convinced that our service will meet the needs of the client, providing an above average return on investment).



ADDITIONAL INFORMATION (COPIES OF SUPPORTING DOCUMENTS)

- Credit reports (e.g. bank statements of owner for past 12 months).
- Contracts (e.g. written agreement with ABC hotels).
- Legal documents (e.g. company registration, Professional Drivers Permit – PDP).
- Leases (e.g. copy of lease agreement with Airports Company for a boarding point).

Financing your business

A financial feasibility study identifies how much start-up capital is needed, sources of capital, returns on investment, and other financial considerations.

A financial feasibility study will help you to determine:

- Whether the business will show a profit
- How much money you will need to invest in the business
- How much money you will need to borrow
- What the operating or running costs will be
- How much you must sell to cover your costs
- What the cash flow will be, and whether the expected profit is worth your while given the risks involved

Carefully evaluate your business idea. Having a thorough understanding of its strengths and limitations will help define your financial requirements and identify your most likely sources of funding.

THE THREE MAIN TYPES OF COSTS TO CONSIDER:



ESTABLISHMENT /START-UP COSTS

- Legal services (e.g. contracts)
 - Machinery and equipment (where applicable)
 - Stock
 - Market research
 - Provision for operating costs for at least six months (e.g. salaries, advertising, rental)
-



BUDGETED OPERATING/RUNNING COSTS

- Salaries and wages
 - Rental of premises and equipment
 - Municipal services (e.g. water and electricity)
 - Insurance
 - Advertising; and
 - Telephone, stationery, postage, etc.
-



CONTINGENCY FUNDS

- To survive rough periods until your business becomes profitable
- Deal with any unexpected costs which may occur

Obtaining finance

Before obtaining funding from a financial institution, try to access it via friends or family.

SIMPLE PRESENTATION

In raising money for a small business, you need to make a quick, simple presentation to a lender.

You need to show:

- Why the business is sound or why your idea will work
- How much money you need
- When the money will be paid back
- What security you can offer

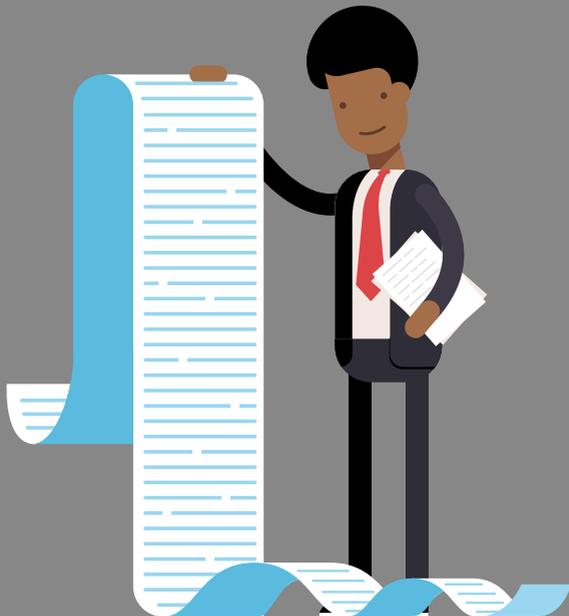
PROVIDING FIGURES

If your business is operational, submit your latest annual and/or monthly income statement sheets. If your business is a sole proprietorship or a partnership, you may have to personally guarantee any loan. In that case, submit a statement showing your personal net worth (assets less liabilities). Also, you should provide a cash flow projection indicating when borrowings will be repaid.

SIMPLE PRESENTATION



PROVIDING FIGURES



PLAYING THE PART



CUSTOMISING YOUR PRESENTATION



PLAYING THE PART

The financier's opinion of your capability and trustworthiness will be a major factor in the bank's (or any lending institution's) loan decision. It's important to be relaxed and confident about your business prospects. If you are seeking funding for a relatively new business, include a résumé (list) of your previous accomplishments in your presentation package.

CUSTOMISING YOUR PRESENTATION

Appeal to the needs of the person you are approaching for money. If you are seeking loan finance, emphasise the certainty of your ability to repay the loan – don't emphasise prospects of unrealistic profits. Remember, debt financiers do not share in profits. Big talk about profits will make a debt financier view you as a risk-taker or unrealistic dreamer.

On the other hand, if you are making presentations to equity (share) investors, you certainly want to emphasise your profit potential.

Your business and the law

THE BUSINESS AS LEGAL ENTITY

Your business will be subject to a number of legal requirements in order for it to operate formally. Some of the most important considerations will be explained below. Sole proprietor, partnerships and companies are by far the most common business structures in South Africa. More information is provided on them below.

SOLE PROPRIETOR

Also known as a sole trader. This is simply when you start trading as yourself. For example, you could fix peoples' cars for which they pay you. You are running a business, but there is no need to create a company name or structure. This is the simplest form of business and requires small effort to set up. You will need to notify the South African Revenue Service (SARS) of your resulting extra income, although this can also be offset by business expenses. The biggest risk for this structure is that if the business fails, your creditors can recover the debt from assets belonging directly to you.

So, in summary, this structure means you are the business and no new entity is created. You may trade in your personal name, but if you start the business and want to have a different trading name like "AJ Consulting", then this name will have to be registered with the Companies and Intellectual Property Commission (CIPC) at www.cipc.co.za

PARTNERSHIPS

A partnership represents a number of people coming together, between two and twenty, and contractually agreeing to operate a business together. They further agree to split any profits as per their agreement and in proportion to their interests. In establishing a partnership, each partner needs to make a contribution to it and as per a sole proprietorship the partnership is not a separate legal entity, leaving partners generally liable for debts (i.e. jointly and separately).

COMPANIES

Also known as a Pty Ltd. This is the most popular structure for entrepreneurs in South Africa. Essentially a company represents a new legal entity which is created as a separate liability from the individual owner. It will have the owners (shareholders), which may be one or more persons who own the company, and the managers (directors) who run the company, which may be the same people.

These companies are registered with the CIPC, and each year an annual return must be submitted to them to verify that the company is still trading. Smaller companies will require an annual accounting review undertaken by an accountant.

The advantage of trading as a company is that:

- It gives you a more professional image.
- Reviews by an accountant can help ensure that you are running things properly and following the law.
- Ability to have other companies or similar legal structures that are shareholders of your company.
- Allows several people to get together and share in the ownership of a business and makes it easier to sell portions, or all of it, to future buyers.
- Debts of a company generally belong to the company, implying your personal assets are safe.

STATUTORY REQUIREMENTS TO REGISTER A BUSINESS

Whatever your structure you need to be aware that the Government will still require you to register your business, register for income tax, VAT, UIF, COID, PAYE and to apply for certain licenses depending on your industry, your size and whether you are employing staff.

REGISTER YOUR BUSINESS

If you're setting up a private company (Pty Ltd), you need to register your company as a legal entity. All the information you require can be found on the CIPC website: www.cipc.co.za or contact the call centre on 086 100 2472.

REGISTER WITH SARS

Whether you're running a sole proprietorship, a partnership or a private company, you have to be registered with SARS. If you registered a company with the CIPC, you will automatically be registered as a tax payer with SARS. Sole proprietors or partners need to register as provisional tax payers directly. When you start a business, you will be required to register within 60 days of starting a business for an income tax reference number by completing a IT77 form, either at any SARS office or online.

REGISTER AS A VAT VENDOR

If your turnover, is or is expected, to fall within the R1 million a year or more range, you will need to register as a VAT (Value Added Tax) vendor. This is done by completing and submitting a VAT101 form, which is available at SARS offices.

REGISTER FOR PAYE

If your business intends to employ one or more staff members who earn over R40,000 per year, you have to register your company for PAYE (Pay As You Earn) tax contributions. In addition, if your payroll is more than R500,000 a month, you will have to register for payment of the Skills Development Levy (SDL).

In order to do this, simply complete an EMP101 form at any SARS office. This includes sections for contributions to the Unemployment Insurance Fund (UIF) and payment of the SDL. For more information on the SARS required registrations, please contact them at 0800-00-72-77 or visit www.sars.gov.za

REGISTER WITH THE DEPARTMENT OF LABOUR

All business entities that employ one or more full-time employees will be required to register with the Department of Labour. This is mandatory in terms of the Compensation for Occupational Injuries and Diseases Act (COIDA).

Here's how to register in terms of COIDA:

- Complete and submit the WAS2 form at the office of the Compensation Commissioner
- Once registration has been completed, you will be sent the following additional forms to complete:

- WAS8, which must be filed within 30 days of your financial year-end, and which must balance with your COIDA account
- WAS6a, which details the assessment of the Commissioner for premiums payable, less any amounts that may have been paid in advance
- WG30, WAS2 and WAC1(E), are claims forms that must be kept in a safe place for use if and when necessary

If you want further information about COIDA, the registration process or the obligations of companies in relation to the Act, visit the Department of Labour's website www.labour.gov.za or e-mail wc.customer@labour.gov.za

REGISTER WITH THE UNEMPLOYMENT INSURANCE FUND (UIF)

All employers must register their employees for unemployment insurance, which can be done on form UF8 at any SARS office, or online. They should also obtain copies of form UI-19, which is required to register new employees when they join the company.

You will receive a copy of form U133 to confirm your registration. Thereafter, UIF payments must be made monthly, either directly to the UIF or together with PAYE and the Skills Development Levy (if applicable). Contact the Unemployment Insurance Fund (UIF). For more information please e-mail enquiries@uif.gov.za or call them on 021 941 7000.

MUNICIPAL COMPLIANCE

There are also municipal by-laws in the respective local area where your business intends operating which need to be considered. Local authorities regulate issues such as zoning, noise levels, hygiene, etc. and will have an impact on your business depending on which industry you plan to operate in. For example, you will probably need permission to run a noisy manufacturing operation, and a health certificate for operating a food preparation business. Different local municipalities have varying by-laws and therefore varying guidelines for compliance. Always contact your local municipality in the planning stages of your business to see what their requirements may be. Many have local economic development sections which can assist you.

If your business is facing any other challenges contact our Red Tape Reduction Business Helpline on 0861 888 126 or e-mail redtape@westerncape.gov.za

For more information, please visit our website www.westerncape.gov.za/redtapereduction



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