ready for business

A start-up guide for new businesses

Australian business
Proudly supported by Westpac

At Westpac we believe the ability to make confident financial decisions is an essential step to enable individuals and businesses achieve financial wellbeing.

We believe that Australia's future depends on the financial literacy of its communities, businesses and individuals.

Financial education provides the awareness, knowledge and skills to build capability, empowering people to take charge and make sound financial decisions.

We believe that every Australian should have access to the financial literacy they need to achieve their financial goals and build a strong financial future.

Ready for business

Starting a business can be an exciting and rewarding experience. But it can also be challenging without the right planning. This step by step guide takes you through the start-up process to help turn your business dream into a reality. Each section is full of handy tips and information, and provides a comprehensive set of checklists, all aimed to help you get started and build a sustainable business.

Table of contents

The dream

Every business starts with a dream, however every dream doesn't necessarily become a business. At the outset the dreamer needs to establish if they are the right person to turn that dream into a reality. This section of the guide looks at the skills and qualities required to run your own business.

Ideas, drive, enthusiasm and self-confidence

Essential qualities for small business success.

Starting your own business may be one of the most exciting things you ever do. It can offer lots of potential rewards, especially if you have an idea that's unique or you want to be completely independent. But you need to understand the risks involved in running your own enterprise, both financially and personally. Ask yourself if you have what it takes to be your own boss; is your business idea viable; why do you want to be in business; is this really for me?

Above all you will need passion and a love for the business you choose to begin. Then, there are certain attributes that someone starting their own business ideally has: you should be comfortable with a certain level of business risk; while you don't need to be a mathematical genius, you do need to understand numbers and be confident in dealing with cash flow and setting margins for your product or services; you will need the right skills for the job, say, people skills if you start a public relations agency or manufacturing knowledge if you plan to produce parts for refrigerators.

Small business owners need to understand or be willing to learn about day-to-day business management, planning, sales and marketing. There are short (and longer) courses you can take to acquire any skills you may be lacking. Don't forget that one of the best skills is to ask questions and seek advice. Find an accountant, lawyer and bank manager that you trust and respect, and make sure you research material on how to start your own business – you may be surprised how much you already know and how many skills you already have.

You may be starting a business either because you have a great new idea, or you have identified a gap in the market, or you simply want to be your own boss. You will want to flesh out these ideas on paper. Many small businesses fail to write business, marketing and financial plans which can lead to the business under performing. Your first job then, is to gather sufficient information to help you write these plans.

Ask yourself these questions: do you fully understand the business you want to start; do you know who your customers are; do you have sufficient money to pay for opening costs and income needs for, say, 12 months; do you have access to more funds if you need them; and, how much money and time are you prepared to risk on this business?

THINGS TO REMEMBER

Buying an existing business vs starting your own

Pros

1. May be cheaper than starting from scratch
2. Past financials show what to expect
3. Cash flow may be immediate
4. Time and effort saved in stocking business
5. Existing goodwill with customers, suppliers and employees
6. Easier financing opportunities

Cons

1. The cost of paying for goodwill
2. May be more expensive than starting from scratch
3. No guarantee customers will stay
4. Inheriting bad decisions, poor suppliers or bad staff
5. Hidden financial problems

The vision

The next step in turning your dream into a reality is to clarify the vision. This section of the guide covers establishing whether there is a market for your product/service, and the importance of getting to know that market well.

What a great idea!!

You may have a good idea, but is it a good business proposition?
Not all good ideas make money.

Ever heard of Breakfast Mates? No? And there's a reason for that.
The idea behind Breakfast Mates was fairly simple – pack a box of cereal with milk and a spoon and you have a tasty meal on the go! Unfortunately the producer of Breakfast Mates failed to take two things into account. First of all, though the milk in the box did not require refrigeration, no one likes the idea of warm milk. And second, their advertising showed parents sleeping while the children helped themselves to Breakfast Mates– but the packaging was not child-friendly. Unfortunately what seemed like a great idea was doomed to fail.

There are any number of things that can cause a "great idea" to fail as a product or service which is why it is essential to put a lot of thought into how the idea can be translated into a money making venture.

Here's just a few to mull over:

- What need or want does the product or service satisfy? Is the product or service something that people recognise they need or want, or do you need to convince them of its value?
- What raw materials are required? Where can they be sourced from? And how much will they cost?
- What is the value-add process to turn those raw materials into the end product or service? What equipment, skills, and time will be required?
- Will the process economically be able to produce sufficient quantities of the product or service to meet demand?
- How will the product or service then get to the purchaser? Do you need a shop front, mobile distribution, or a website?
- How easy is the product or service to use? Is it self explanatory or too complex for the "average Joe"?
- How do you package/present it?
- Will potential customers pay the price you need to charge to make a profit?
- What alternatives (to the product or service) are currently on the market? And how does this one differ?
- Are there complimentary product or services that could utilise excess capacity and provide another income stream?

There is considerable value in applying time to develop a very clear picture of what the product or service is, and how it will end up in your customer's hands so that you can identify any barriers or problems before you end up with a "lemon".

The vision

(continued)

Know your target market

To have a viable business you need to be able to sell something that people want and make a profit from it. Market research in the early planning stage of your business will indicate whether you have a "goer". That is, whether there is a market for your product or service, whether customers will buy it and what kind of price you can expect to sell it for.

Is there a market?

Complete a market analysis to find out as much as you can about the marketplace, your customers and your competitors. You want to be sure you are giving your customers exactly what they want, when they want it, packaged and delivered in the way they want, and at a price they can afford and are prepared to pay.

Your customers. Develop a list of target prospects. Decide who they are (age, location, income bracket, occupation, hobbies) and find out as much as you can about them. Your aim is to concentrate your marketing strategies on the customers most likely to buy your product or service. To find out what your customers think of your product or service and what price they are likely to pay, speak to them directly through a focus group or questionnaire, talk to passers-by in a location that your target clients frequent, or arrange a product trial or test. A market research company can help you with this.

Your competition Do a SWOT analysis on who you will be competing against, how long have they been around, what they sell, how much they sell it for and why people buy from them. How will you compete? Remember, your competition isn't only other businesses that sell the same things as you. It can also be those with an alternate product or service competing for the same customer dollar. For example, if you sell chocolates, your competition can be someone nearby who sells flowers.

Doing the research

Look for your competitors in the Yellow Pages and trade directories, or through the internet. Websites such as those listed below can be a useful source of competitor and market information.

Australian Bureau of Statistics	**www.abs.gov.au**
Australian Retailers Association	**www.retail.org.au**
Business Council of Australia	**www.bca.com.au**
Australian Chamber of Commerce and Industry	**www.acci.asn.au**

Pricing your product or service

Pricing can make or break your business. You need to charge a price that customers will pay, but one which allows you to make a profit after paying your production and costs. You need to take into account:

- Your costs – all expenses (direct and indirect) and overheads
- The level of profit you need to make
- The image you want to create and your desired market position
- What people are willing to pay
- What your competitors charge

Remember, if you do not sell direct to the customer, the wholesaler and retailer will need to add their mark up or margin, and this will affect the final market price.

The plan

The next step is to turn that vision into a plan. This section of the guide covers:

- Some hints on what to include in your business plan
- How to construct a cash flow budget

Write it down

A business plan doesn't have to be a book, but it does give a business owner the opportunity to think through exactly what is going to make them money.

Many businesses fail because they do insufficient planning before they start. So take time to develop your business plan, outlining your goals, your strategies, your prospects and how you will achieve them.

Each business will have its own unique plan. While it's good to work from a template, throw out any headings that don't specifically apply to your business. Don't treat this as homework, but as a serious analysis of how your business will work. Your plan will help you test your ideas and decide on strategies to reach your goals.

Your business plan doesn't need to be as big as War and Peace. In fact, the more concise, but straight to the point, the better. Even five pages can be sufficient. You do need to make sure you cover off all areas of your business and that your plan is manageable and flexible enough to change as conditions in your business change. Your plan will reflect your business life cycle: whether you are starting the business, finding investment, supporting a business loan or providing ongoing management. A plan for raising capital will emphasise for prospective investors how much equity they get for how much money, how their investment capital will be used, the return on equity and the business exit strategy. A business plan prepared to accompany a bank loan application will show the loan requirements, how the borrowed money will be used, what collateral is provided and the repayment plan.

The plan is your roadmap to success. It needs to be fluid and flexible, reviewed and revised at regular intervals throughout the business year.

If at any time you are forced to take a detour in your strategy, your business plan will help you find your way back on to the main road.

THINGS TO REMEMBER

Your plan: key ingredients

1. **Direction:** A business plan should establish your business's priorities. Don't try to do everything, and don't try to please everybody.
2. **Detail milestones,** with deadline dates, spending budgets and key tasks for the person responsible for them, and describing how they are going to be tracked and measured.
3. **Cash flow:** is different to profit. Your business plan should show month-by-month projected and actual cash flow for at least 12 months.

How to write a business plan

- **The executive summary –** The highlights of your plan.
- **Location and history of business, facilities and equipment; legal structure; insurances –** This section describes the legal entity and ownership structure, gives an overview of start-up costs and initial funding.

- **Products and services –** Describe the products or services you offer. Emphasise why buyers purchase those and what benefits they get. Show how much it costs to deliver what you're selling.
- **The industry and market analysis** – Describe your target market and segment you will focus on, including market demographics, market growth, trends and forecast. Describe the nature of your industry and your competition.
- **Strategies, mission, objectives and milestones; marketing strategies, advertising and promotion; sales forecast and cost of sales; distribution, plans for growth** – Define your milestones with dates, budgets and specific responsibilities.
- **Management structure and staff positions** – Name and describe the key members on your team. List management team gaps if any and show how they're being addressed.
- **Financials –** detail financial plan and needs summary, sales forecasts; assumptions; annual income and expenditure; profit and loss statement (P&L); cash flow statement; balance sheet
- **Information systems and controls**

SWOT analysis

A great way to start the business planning process is by completing a SWOT analysis. This enables you to determine what is currently working well, versus things that are not working so well within the business. Having this information enables you to develop a specific set of actions within the plan that will ultimately help achieve the business goals.

A SWOT analysis helps define:

- Strengths (eg. good reputation; up-to-date technology, good location),
- Weaknesses (eg.lack of experience; short-staffed; high overheads),
- Opportunities (eg. local market growing fast; unfilled niche in market; possibility of joint venture), and
- Threats (eg. competitor opening up, reliant on one supplier, raw material costs rising).

Exit strategy

Knowing how and when to exit your business is as important as knowing how to start it. Whatever exit strategy you choose – close it, sell it, or pass it on – you will need a succession plan. But what will you do if your business fails? Most forced closures, or bankruptcies, result from cash flow problems, but the vast majority of non-bankruptcy closures are due to businesses just not meeting the expectations of their owners. In either case it is best to seek assistance and advice from your solicitor and accountant to develop an effective exit plan.

THINGS TO REMEMBER

Are your goals smart?

SMART goals are ones that are:
1. Specific 2. Measurable 3. Achievable 4. Relevant 5. Time-bound.
For example, instead of saying your goal is to make widgets, a SMART goal could be to make quality widgets and capture 10 per cent of the market in the first year and to grow widget sales by 5 per cent a year over the next four years.

Cash is the lifeblood of every business.

Of all the reasons as to why businesses fail, insufficient cash flow is one of the most common.

Often this is not due to the lack of actual business or the amount of sales being made but the mismanagement of the funds available. Every business has its differences, but the core principles are the same. Cash is the lifeblood of your business, without proper cash flow management and planning your business may fail.

Difference between profit and cash

It is important to understand that profit and cash flow are two different things. Many operators will tell you that it is possible for a business to generate strong profits but collapse because they have run out of cash.

The easiest way to explain this is to imagine a business whose profit and loss statement showed that last year they made a profit of $50,000. What the profit and loss statement doesn't show is that for the first eleven months of the year this business was strapped for cash and nearly went under as they only made enough sales to cover their costs. In the last month of the year they made a couple of large sales and this is what resulted in the annual profit of $50,000.

Profit is the result of trade over a given period; cash flow is required to keep the business in operation by covering day to day expenses. This is why it is important to manage and understand how cash flows through your business.

What is a cash flow budget?

A month by month cash flow budget will help you to forecast whether you have sufficient cash in the bank to pay the bills each month. A cash flow budget simply records the amount of money that you expect to flow in and out of your business over a given time frame. It is a financial tool that will help predict the availability of cash in a business at any given time. Income and expenses are calculated monthly to help plan for any future shortfalls in cash.

How to construct a cash flow budget

A cash flow budget is based around a series of assumptions about the expected performance of the business in the future. These assumptions need to be realistic and supported by the most accurate data you have available.

If you have access to previous trading results then the best place to start is last year's sales and expense records. Allocate these results into similar months that they occurred last year unless you know they will change in the future. You may want to increase sales to account for more growth or you may know that you made an unexpected sale/ expense in a particular month last year that was a one off. You could be looking at introducing a new product line or service, looking to buy a new piece of equipment or employ another person. These will all have an impact on the cash flow budget and are the type of things you should account for so that you can forecast as accurate a picture as possible.

If you plan to use the information on your profit and loss statement understand that these have been prepared for tax purposes and will account for non-cash payments such as depreciation. This shouldn't be included in a cash flow budget as you don't physically make a payment for these things. Similarly don't forget to include things like loan repayments which don't appear in your profit and loss statement.

The plan

(continued)

If the business is new, then you will need to base your assumptions on research, market expectations, contracts held, known expenses such as rent or compare other similar business results. The more information you can build into the picture the stronger the tool will be. Some will say it is a good idea to have three cash flow budgets that account for the best, most likely and worse case scenarios.

Computer spreadsheets allow you to quickly adjust scenarios and as you receive your actual figures for each month it is important that you fill these in so that you have an up to date position of the business. This will allow you to react as quickly as possible to any changes that may be required. Based on this, the cash flow forecast should be a living document and not filed away and forgotten about. Used properly it is one of the most important business indicators and planning tools you can have.

Many people in business will have their accountant prepare their cash flow budget for them. There is nothing wrong with doing this as long as you, the business owner, understand the information that your accountant has prepared. If you don't understand the assumptions that your accountant has put into the cash flow budget, then you won't be able to use it as an effective tool.

THINGS TO REMEMBER

Cash low?

If money in the bank is tight each month, you may need to ask yourself these questions:

1. Do you use a cash flow budget?
2. Do you make collecting accounts a priority or are you too busy?
3. Do you have a clear debt collection system in place?
4. Do you need an overdraft facility to smooth out your cash flow?
5. How do you manage your stock and do you have too much stock?

Cash flow forecast

Use this sample cash flow forecast as a guide to tracking your incomings and outgoings.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Beginning cash position													
Incoming													
Cash sales													
Debtor Collections													
Other income													
TOTAL CASH AVAILABLE													
Outgoing													
Creditors													
Wages													
Operating expenses													
Loan repayments													
TOTAL CASH OUTFLOW													
Month End Cash Position													
Short term loan requirements													
Ending Cash Position													

THINGS TO REMEMBER

Why do a budget?

1. It helps planning
2. Identifies borrowing needs
3. Supports funding applications
4. Allows you to monitor business performance
5. Uncovers potential problems before they become an issue

The creation

This section of the guide covers the activities necessary to enact the plan and turn the vision into a reality.

- What's the right structure for the business?
- What capital you will need and where to source it
- Talking to the bank about a loan
- Applicable costs to consider
- Managing the finances – accounting and banking
- Insurances to protect the business
- Business registrations and licences

Structural integrity

The costs and risks of each legal structure are quite different. The one you choose can save you time and money, minimise paperwork and help you avoid unnecessary government red tape. Owning a business takes a broad range of skills and personal abilities. As a sole trader, you are the business. But if you feel you don't have sufficient experience on your own, taking on a partner or having a board of directors to advise you may add to your business success.

Sole trader

PROS:

- Easy and low cost to set up;
- Owner has 100 per cent control;
- Less compliance and legal requirements;
- The legal structure is easily changed;
- Owner keeps all the business profits;
- Provides maximum privacy

CONS:

- Owner has unlimited personal liability;
- No protection for owner's personal assets;
- The business may fail if the owner becomes sick;
- It can be more difficult to raise finance;
- With only one person, there is a narrower skill base

You are the sole owner and have all the control. The business can trade under your name or a registered business name. You will need to register your business name and you will need an Australian Business Number (ABN). You use your individual tax file number to lodge your tax return. The business income is treated as your own so you pay the same tax rate as individual taxpayers, according to your marginal tax rates. Take your Certificate of Registration or Business Name along to your bank to open your account.

Partnership

PROS:

- Set up easy and low cost;
- Fewer legal requirements or outside regulation;
- Partners share risk and responsibility;
- Easier to raise finance with more partners;
- Easy to change legal structure;
- Broader management base

CONS:

- Each partner is personally liable for debt;
- Authority is divided among partners;
- The partners can disagree;
- There are limits on partnership size;
- Ownership transfer more difficult

The creation

(continued)

The business is owned by two or up to 50 partners and the income is received jointly. An agreement or contract outlines any salaries, drawings, profit share, loan agreements, termination clauses, if new partners are admitted, how books are kept, how disputes are settled or how losses are handled. All partners are liable for debt. The business can trade under the partners' names or a registered business name. The partnership will need an ABN and its own tax file number to lodge its own annual income tax return. Each partner pays tax on their share of net partnership income. Take your Certificate of Registration or Partnership Business Name and Partnership agreement along to your bank. You will need to identify signatories for the account.

Company

PROS:

- Financial liability is limited to the company assets;
- It is easier to raise finance for expansion;
- It is easier for other people to invest in the business;
- It has greater credibility with some customers;
- Ownership can be easily transferred;
- Death or incapacity of an owner does not disrupt business

CONS:

- Higher annual accountancy fees;
- Must publicly disclose key information;
- Extra regulations and record-keeping;
- Decisions may be restricted by constitution;
- Owners can't offset losses against other income;
- Costly to wind up

The words "Pty Ltd" after a business name, indicates it is a registered legal entity, trading in its own right. The company has shareholders (those who have invested in the business to start it up) and directors (people appointed by the company who run it and are sometimes paid). Profits are either shared out among the shareholders in the form of dividends or reinvested in the company. Directors can be asked to give personal guarantees to cover any debts incurred. Register the company with the Australian Securities and Investment Commission (ASIC) which will issue your Australian Company Number (ACN). You need this before you can apply for an ABN. A company will need its own tax file number to lodge its own annual income tax return.

Trust

PROS:

- Limited liability is possible;
- A trust is more private than a company;
- Greater flexibility in income distribution;
- Continuity of the trust can be preserved

CONS:

- Costly to set up and run;
- More compliance and legal requirements;
- Trust deed has a limited life;
- It can be difficult to raise finance;
- Trustee is subject to Trustee Act;
- Powers are restricted to the trust deed

A family trust or discretionary trust is similar to a company and once had many tax advantages. A trust is commonly set up with a company acting as trustee. It is complex to set up and administer and you should check with your solicitor on whether it suits your individual circumstances. A trust must have its own ABN and tax file number (TFN) to lodge its own annual income return.

Capital ideas

Capital is simply how much money is needed to operate your business.

How much capital do you need?

Your business will need sufficient finance to cover capital expenditure and working capital.

Capital expenditure is the money you need to spend on assets to run your business, such as computer and office equipment, shop fittings, vehicles or manufacturing machinery. You may not need to buy many assets to start your business and you may consider leasing them initially to free up some of your capital. Leasing costs are treated as business expenses not capital expenditure. You will need to prepare a capital budget to include in your business plan.

Working capital is the money you need to run the business day-to-day while you wait for money from sales to come in. It includes stock, cash at bank and debtors, minus liabilities, such as creditors, tax accruals and any short term loans. Having insufficient working capital can impact on your cash flow and cause your business to fail. To understand your working capital needs, you should prepare a monthly cash flow budget for the first one or two years. If you don't understand how to do this, make sure you attend a course before starting your business.

Finding finance

Raising finance can be a challenge for new businesses with no history or track record. If you are a sole trader, you will be asked to give personal guarantees and may have to borrow against personal assets such as your home. Directors of companies may also be asked to give personal credit guarantees.

Different kinds of finance include:

Equity finance is capital (money) introduced to the business by the current owners or external investors, say shareholders or venture capitalists. If you have a company structure, your shareholders exchange capital for shares and profits are returned to them through dividends. This form of equity is well suited to businesses that expect to grow quickly.

Loan finance is money that you borrow from a bank and repay at a fixed or variable interest rate. It can be in the form of an overdraft or a business loan, repaid in equal instalments over the term of the loan.

Creditor finance is a form of "borrowing" money effectively at no cost to you. Suppliers may give you 30 to 60 days credit and if you can sell your product or service and get paid before you have to pay your creditors, you can use this as a means of generating cash into your business.

Debtor finance simply means selling on your debts to another firm in order to help your cash flow. If your business is growing quickly and you provide credit accounts to your customers, you can "factor" the debt through a debt collection agency or factoring firm instead of having to wait 30 to 60 days for customers to pay you. This can cut the costs of chasing overdue accounts.

Financial leasing allows you to finance the use of an asset rather than owning it, say cars, computers or other office equipment. This is known as capital asset finance.

The creation

(continued)

What does a bank want to know?

When you approach your bank for funding they will want to see your business plan and your financial forecasts and budgets.

They will want to know:

- Your financial track record
- What your credit history is like
- How much you want to borrow
- What you want to borrow it for
- How and when you'll repay them
- What security you can provide

You'll need to be able to talk about your plans with confidence. If you don't really understand the financial aspects of your business, the lender may not feel confident about lending to you. It's a good idea to go over the facts with your accountant and be prepared as much as you can before you meet with the bank.

Approach your lender early, build a good working relationship from the start and get your credit lines in place before you need them. If you need to apply for a loan, you should do this before you have used up all your own equity, otherwise you might not meet lending criteria. Most lenders require you to put in a certain amount of equity at the time they give you a loan – they really won't count money you've already put in or the fact you may only be drawing a small wage.

In some cases a lender can use business assets as security but generally for most new businesses you'll need to provide some sort of personal security as well, such as a mortgage over your home and a personal guarantee.

Obviously this is not something you should do lightly, because if something happens to the business it could leave you with a substantial personal debt. Get legal advice before you sign any agreements or financial documents. You may only get one shot when you are seeking investment funds so get expert advice first. Your accountant or business adviser can help.

Debt structuring

Good business financing arrangements match the type of credit with the business need, so your business has the money it needs to operate efficiently and is not paying more than it needs to.

Correct debt structuring is also important for business viability. Loans should be matched to the life of the business asset. It does not make economic sense to have a loan that outlasts the life of the asset. What would happen if you needed a loan to replace an item and were still paying off the first one?

Cash flow needs should be met from cash coming into the business, topped up as needed with short-term credit. The idea is to borrow the money for as short a time as possible and only when you need it, for example to meet seasonal demands. Using credit cards and trade credit from suppliers can also help you manage your cash flow, at little or no cost if you pay in line with the terms.

If you can't manage your cash flow needs this way, then you probably need to reassess the efficiency of your business. To improve the cash flow, you may need to look at your stock management, ways to cut costs, better debt collection or increasing sales margins.

Understand the costs

Many businesses launch into the marketplace without a clear idea of costs. While you don't want to dampen your enthusiasm, you may want to be aware of what's involved so you can prioritise your initial spending.

Start-up costs

When calculating your start-up costs, think about things such as:

- Professional fees such as accountant and solicitor
- Registration fees, licences and permits
- Insurances such as office contents, public liability, income protection and loss of profits
- Office equipment and furniture such as desks, chairs, white board, filing cabinets and shelves
- Technology costs such as phones, computers, printer, scanner, accounting/office/security software
- Communication costs such as new phone lines and electrical wiring, website, stationery, post office box
- Marketing costs such as an ad in the Yellow Pages, letterhead paper, business cards and signage
- Health and safety equipment such as a first aid kit, a fire extinguisher, hard hat or safety glasses
- Staff costs such as recruitment, training, staff amenities, uniforms or safety clothing and footwear
- Premises costs such as rent guarantee, cleaning, fitout
- Finance costs such as establishing banking facilities or loans

Superannuation

If you have employees between the age of 18 and 69 years (inclusive) and who earn $450 (before tax) or more per month, you will need to contribute to their superannuation. This is known as the Superannuation Guarantee. Employees have the right to choose which superannuation fund their contributions are paid into. Ask your accountant about this or see www.ato.gov.au for more information.

Goods and services tax (GST)

You don't need to register for the GST unless you a turning over more than $75,000 a year or provide taxi travel. If you are registered, you're obliged to provide a tax invoice to your customer for sales over $82.50. A tax invoice is like a normal invoice, but must include the words Tax Invoice and your ABN. As a small business you can elect to report your GST monthly, quarterly or annually. This is done on a Business Activity Statement (BAS) that is submitted to the ATO.

Tax

You can generally claim a deduction for expenses incurred in carrying out your business. So for example, you can deduct from your gross income expenses such as purchasing trading stock, employee wages, business travel away from home, motor vehicle expenses, advertising, phone expenses, bank fees and charges, transport, freight and electricity. Capital expenses, which are the costs of establishing, replacing, enlarging or improving a business operation may be depreciated over time. Check with your accountant or at www.ato.gov.au.

Capital gains tax

If you sell an asset in your business for more than you bought it for, you have made a "capital gain" on which you may be taxed. If your home is your place of business, you may be able to claim tax deductions on a proportion of your mortgage interest, home and contents insurance, council rates, gas and electricity, telephone, office furniture and equipment. However, if you do offset these costs against your business income, you could face a capital gains tax issue when you come to sell your home. For tax information, contact the Australian Tax Office (ATO) at www.ato.gov.au

Managing cash and finances

Businesses need start-up capital – whether it's $1,000 from savings, $10,000 from an inheritance or a $50,000 bank loan, – and ongoing working capital. Managing both of these effectively is a challenge for many new business owners.

It's a good idea to get professional advice on financing. There are some ingenious methods of raising money and not all of them are sensible. One business adviser tells the story of a small business owner who had been advised by a friend to use his credit card to start up his business. "But the interest rate on a credit card can be high and in talking to the owner, it emerged that he had set aside a large sum of cash," the adviser says. "I suggested that he put the cash in a term deposit account and use it as security for the loan to start up the business, and not pay the higher interest rate of a credit card."

Develop a healthy relationship with your bank and your accountant from the beginning. By ensuring that your accounting system is set up properly from the outset you are better able to monitor your cash flow and profitability. All business finances should be kept distinctly separate from your personal finances. Set up a separate working account for the business to save you and your accountant time and effort when it comes to preparing your financial statements. Many businesses also find it easier to manage their GST responsibilities by keeping a separate GST account – after all this is money that you are collecting on behalf of someone else and doesn't strictly belong to the business.

You should also think about how your customers are going to pay you. Cash and cheques need to be banked regularly – when will you be able to do this? If you plan to take payments via debit and credit cards, you will need to apply to your bank for a merchant facility. This type of facility has credit criteria to be met and can take time, so, don't leave it until the last minute. If you are issuing invoices for payment at a later date ensure the terms of payment are clearly articulated and that details of how to make the payment are included as well.

Another consideration is how you are going to make payments to your staff and suppliers. In its early days will the business generate enough working capital itself to cover these payments? If not you will need to ensure you have cash to contribute yourself or you may need to obtain short term finance from the bank. Consider whether you need a business credit card. A credit card might have a higher interest rate than an overdraft, but may be easier to arrange in the early days of your business. Access to credit will help with your cash flow, but you need to be disciplined in its use.

Keeping a close and regular watch on both your bank account and your financials will alert you earlier to any problems that may arise. This means you are able to address them sooner rather than later. There are many business training courses available to help you learn to manage the financial side of the business more effectively.

The creation

(continued)

Get registered

There is a multitude of legislation around operating a business and it's essential to ensure that the business has the correct licences and registrations to operate.

The law requires that everyone operating a business must do so under an Australian Business Number (ABN), which must be registered with the Australian Securities and Investment Commission (ASIC). To apply for an ABN, go to www.abr.business.gov.au.

You will need to register your business name unless you trade under your own name. For example, you can call yourself John Henry, electrician, but need to register the name John Henry's Electrical Service if you are a partnership or sole trader, or Henry's Sparky Service Pty Ltd if you are a company. To check if anyone has registered the business name you would like to use, check www.connectonline.asic.gov.au. To register, go to www.business.gov.au.

The next step is to check whether you need a licence or permit from the national, state or local government to operate your business. You may need a licence to prepare or serve food (food premise registration), sell alcohol (liquor licensing) or employ staff (WorkCover, taxation and superannuation). Contact the Business Licence Information Service at www.ablis.business.gov.au. Check with your solicitor on this and other issues such as regulations, codes of practice, standards or contracts.

If you want to protect your product, service, name or logo, you will need to register a trademark. Contact IP Australia on 1300 651 010 to find out how or see their website www.ipaustralia.gov.au.

Accounting for your business

Once the business goes live, it will be important to be able to manage your invoicing, expenses, GST, inventory (where applicable) and payroll. You should choose an accountancy package that meets your needs, as this will make managing your accounting much simpler. Apart from the basics that all businesses need to manage, such as payroll, invoicing, BAS and GST, questions that you should consider include:

- Do I need to track stock levels?
- Do I need to track and bill my time?
- Do I buy using purchase orders?
- Do I conduct any foreign currency transactions?
- Would it be beneficial to access my information anywhere, via online?

THINGS TO REMEMBER

Finances

1. Work out start-up costs, and prioritise
2. You need enough funding to cover both capital expenditure and working capital
3. Keep business and personal finances separate
4. If you turn over more than $75,000 annually (or provide taxi travel), you must register for GST
5. Employees aged between 18 and 69 who earn more than $450 a month are paid superannuation

Protect yourself

When you operate your own business it's a labour of love so it's important to protect what you have worked so hard to build.

As one business owner said after fires swept through their home and office. "As a survivor of the devastating firestorms, one thing I must say to those operating a business is to insure, insure, insure. Especially for loss of business. I lost 10 days' work. I wasn't covered for loss of business then, but I am now. Many of those who lost everything had a long and hard recovery. Their records were lost and they had no income while trying to restart their business. Insurance for any kind of act of God is necessary, as is income protection insurance in case something happens to you."

Natural disasters are just one thing that puts the business assets and operations at risk. There are many others too that as a business owner you will need to assess and protect yourself from. In determining what type and what level of insurance cover you will need, ask yourself questions such as:

- Does your business carry high levels of stock, or store highly valuable items?
- Is your business reliant on the operation of equipment, machinery or tools?
- Do you employ people to help you operate your business?
- How would you manage financially if your business was unable to operate for a period of time?

Some types of insurance that business owners should consider are:

Property insurance to cover your business premises and contents for defined events such as fire, storm, impact, explosion, or earthquake. Some policies also include cover for removing debris and professional fees incurred in repairing or replacing buildings eg architects or surveyors.

Other property insurance to cover theft, accidental loss or damage to equipment, stock, goods in transit or cash.

Business interruption insurance to cover loss of gross profits if business operations are interrupted due to loss or damage.

Public and products liability insurance to cover your legal liability if a third party sues for personal injury or property damage connected with your business or products. If you're a trades person, public liability insurance is a necessity.

Professional Indemnity insurance to cover you for claims arising from allegations that your specialist service/advice caused financial loss to your clients.

Fraud insurance to cover loss of money or goods as a result of fraud or dishonesty committed by employees.

Key person insurance to assist the business when a key person dies or becomes unable to work. A key person is someone who provides your business with significant economic gain or benefit through playing an important part in generating the revenue for the business and/or obtaining funding for the business. Some examples of key people are: the managing director, a director who is a guarantor for loans, or an employee with a particular technical expertise.

Personal accident or illness insurance to cover your income if an accident or illness prevents you from working and earning an income. Some insurers also provide business overhead insurance to cover specific ongoing expenses if you are unable to operate your business due to illness or injury.

These are just a few examples of the types of insurance available and that you should consider to protect your business.

The launch

It's time to open the doors of the business. This section of the guide covers some hints on how to make day one successful.

We're open for business

The big day is finally here!! And while it's one you will never forget, let's make sure that it's a good memory and not a horror story. How do we do that? Good planning.

Like any important introduction, a successful launch will require quite a bit of preparation. Remember the time when you went for your very first job interview? Did you dress well; take care with your grooming; speak politely and clearly; aim to impress? It is exactly the same when you introduce your new business to the market.

Let's start with what you want the day to look like. Are you envisaging a big party with lots of hype? An exclusive soiree? Great bargains to attract a new clientele? Or perhaps something lower key and relying on your pre-opening marketing to bring customers in? Whatever type of event you decide on, it should aim to do the following 4 things.

Showcase your product or service

Any launch event should be about telling your potential customers what it is that you do or sell and how that will benefit them. What is the need or want that your product or service will satisfy? Create an emotional connection with your potential customers that makes them want your product or service.

Some different ways of doing this might be to:

- Use marketing channels to create a mystique prior to your launch. For example many of the high profile technology providers will use marketing to instil a sense of "I want to be first to find out what this new gadget can do"
- Make a donation of your product or service to a local charity or club with media coverage. For example, if opening a sporting goods store you might donate a year's supply of soccer balls to the local soccer club and invite local media to the event.
- Upload a youtube video. For example, if opening a dance school you might like to upload a video showing the types of dance that will be taught, and the facilities at the premises.
- Provide free product or service to people that will actively promote it. For example, if opening a bakery you might supply the local radio breakfast DJ's with samples of your goods and get them to rave about you on air.

Highlight your point of difference

Are you the biggest, brightest, fastest, newest, most stylish, most comfortable, tastiest, healthiest, most economical, or most accessible? Not only do you need to let your potential customers know what you are selling, you need to provide them with a reason to buy from you rather than your competition. What is it that makes you different? This is really about getting them to connect with your brand.

What is it that your brand stands for? Will your customers relate to you because you are cheaper than others or that you offer a more specialised, personal service? Or do they identify with the sense of fun that your business exhibits or even that your business methods align with their values in terms of energy efficiency, use of organic produce, or even social sustainability.

The launch (continued)

Make sure people can find you

The most common way to locate a business in the modern economy is via an online search. Customers will typically look online, via phone, tablet or computer, for a likely business that sells the products or services that they are looking for. More importantly, for customers who want to research their potential purchases, they now do so online, as it provides a very quick comparison between different offers in the market.

It is also important to note that online search engines rank businesses by the number of references and visits that the sites receive. This means that a business that does not have a website will generally rank very low in the search request. As a result, if your business doesn't have an internet site, the chances are that your potential customers may not even find you.

Convince potential customers that they should buy from you, and they should buy from you now.

The key to a successful launch is to get the cash flowing immediately. You've possibly already spent a considerable amount of your own money in getting the business operational and the sooner sales start to kick in the sooner you will start getting a return on that investment. So how do you convert a potential customer into a buying customer?

This may involve offering early bird discounts, providing a complementary gift with purchase for a limited time, establishing a loyalty program that is only available to, say, the first 50 buyers. There needs to be a compelling reason for them to start purchasing straight away. Once they have made the initial purchase, unless they are very dissatisfied, they are more likely to give you the first option next time they purchase.

At the end of the day if you have created a positive impression, reached a good proportion of your target market, have opportunities to follow up, and started the cash flowing in, this could be considered a successful and happily memorable launch for your new business.

Congratulations.

Start-up checklist

These checklists are designed to be used in conjunction with the Business Start-Up Guide to assist intending business operators to plan a smooth launch and successful transition into the business world.

Checklist one: “dream” stage

Entrepreneurial risk			
Question		Yes	No
1	Are you willing to risk your own money in this venture?	☐	☐
2	Are you willing to risk other people’s money in this venture?	☐	☐
3	Are you comfortable with NOT receiving a regular wage?	☐	☐
4	Do you want a quick, mid-term or long term return on your investment?		
5	Are you committed to spending as much time and effort as necessary to make your business successful, even if this means missing out on other life events and activities?	☐	☐
6	Are you optimistic (as opposed to pessimistic) about the future?	☐	☐
Capability			
Question		Yes	No
1	Have you managed a business before? (Someone else’s or yours)	☐	☐
2	Are you a quick learner?	☐	☐
3	Do you know where to get quality advice from?	☐	☐
4	Are you self motivated?	☐	☐

Checklist two: “vision” stage

Concept Validation			
Question		Yes	No
1	Can you describe the product or service to be sold?	☐	☐
2	Describe what the product or service looks like		
3	Can you describe what pain points or benefits the product or service addresses?	☐	☐
4	Describe pain points and benefits		
5	Do you believe in the product or service that you will be selling?	☐	☐

Start-up checklist

(continued)

Value provided		
Question	**Yes**	**No**
1 What problem does my product or service solve?		
2 Is my product or service convenient for customers?	☐	☐
3 Is the price well positioned? (ie: not too low, so I get a good margin, but not too high so that no-one buys)	☐	☐
4 Is the design attractive to customers?	☐	☐
5 Am I reducing costs for my customers?	☐	☐
6 Am I reducing risk for my customers?	☐	☐

Customer Validation		
Question	**Yes**	**No**
1 Is there a market for the product or service you will be selling?	☐	☐
2 How big is that market in potential customers?		
3 How big is that market in potential revenue?		
4 What are the demographics of that market?		
• Average age		
• Gender		
• Marital status		
• Ethnicity		
• Occupation (eg: construction, white collar)		
• Level of education (eg: secondary, university)		
• Income level		
5 What motivates this market to buy?		
6 How does this market like to be communicated to?		

Consumption Validation		
Question	**Yes**	**No**
1 Where will I get my inputs (raw materials) from?		
2 Do I have a clearly defined supply chain?	☐	☐
3 Do I have a clearly defined process?	☐	☐
4 Can I apply processes to reduce waste and re-work?	☐	☐
5 Can the production process keep up with potential demand?	☐	☐
6 Can the production process maintain desired quality?	☐	☐
7 How do I interact with my customers? (eg: internet, face-to-face)		
8 How do I deliver product/service to customers?		
9 Can this production process ensure an acceptable profit margin?	☐	☐

Start-up checklist

(continued)

Checklist three: “plan” stage

Key Resources			
Question		**Yes**	**No**
1	Do I have the right people to support my activities?	☐	☐
2	Do I have the right skill sets (mine and other peoples) to deliver on all of my business activities?	☐	☐
3	Do I have access to the required assets to operate on day 1? (eg: land, plant, equipment, finance)	☐	☐
4	Do I have the funding required to cover my capital expenditure?	☐	☐
5	Do I have the funding to support my cash flow and general operating expenses for the first month (at least)?	☐	☐
6	Do I know all of my legal obligations? (eg: staffing)	☐	☐

Key Activities			
Question		**Yes**	**No**
1	Do I have processes and plans in place to manufacture my product or deliver my service? • Design • Development (including all component parts) • Delivery	 ☐ ☐ ☐	 ☐ ☐ ☐
2	Do I have the capability to effectively sell my product or service? • Promotion • Advertising • Customer education • Receiving payments	 ☐ ☐ ☐ ☐	 ☐ ☐ ☐ ☐
3	Do I have a business continuity plan (BCP) in case something goes wrong?	☐	☐

Checklist four: "creation" stage

Delivery Channels		
Question	**Yes**	**No**
1 How should I interact with my customers?		
• Face to face	☐	☐
• Telephone	☐	☐
• On site/in store	☐	☐
• Physical delivery	☐	☐
• Newspaper advertisements	☐	☐
• Television	☐	☐
• Internet	☐	☐
• Social media (Facebook / Twitter / LinkedIn)	☐	☐
2 Is my interaction effective? (ie: what financial return does each of these interactions give me, measuring volumes of sales or revenue against cost associated with each channel).	☐	☐

Costs		
Question	**Yes**	**No**
1 Do I know the TRUE COSTS of my operation?		
• All input costs (materials, inward freight, direct labour)	☐	☐
• All manufacturing costs	☐	☐
• All financing / funding costs	☐	☐
• All administrative costs	☐	☐
• All customer costs	☐	☐
• All legal costs	☐	☐
2 Is my operation capable of scalability? (ie: can I grow this business in such a way as to eventually reduce operational expense?)	☐	☐

Revenue		
Question	**Yes**	**No**
1 How will I accept payment?		
• Cash	☐	☐
• Cheque	☐	☐
• Credit card	☐	☐
• EFTPoS	☐	☐
• Online	☐	☐
• Direct debit	☐	☐
• Full payment only	☐	☐
• Part payment (eg: 30% deposit, 70% on receipt of goods)	☐	☐
• Lease	☐	☐
• Invoice terms (eg: 30 days to pay for the goods or service)	☐	☐
2 What is the right price to charge for my product or services? Have I considered		
• Cost based pricing model?, or	☐	☐
• Value based pricing model?	☐	☐

Start-up checklist

(continued)

Legals, Accounting and Banking			
Question		**Yes**	**No**
1	Are my business name and/or company registered?	☐	☐
2	Have I registered for an ABN?	☐	☐
3	Have I registered for GST? And am I going to submit monthly or quarterly BAS statements?	☐	☐
4	Have I spoken with an accountant and developed a chart of accounts?	☐	☐
5	Have I got an easy to use online system for my accounting entries?	☐	☐
7	Have I obtained the licences necessary to operate in this industry?	☐	☐
7	Have I checked my obligations as an employer?	☐	☐
8	Have I considered my occupational health and safety obligations?	☐	☐
9	Have I registered my trade-mark?	☐	☐
10	Have I obtained the necessary insurances?		
	• Building and contents	☐	☐
	• Motor vehicles/equipment	☐	☐
	• Worker's Compensation	☐	☐
	• Public Liability	☐	☐
	• Professional Indemnity	☐	☐
	• Business Continuation	☐	☐
	• Keyman Insurance	☐	☐
11	Have I opened a business account? And arranged any necessary banking products or loans?	☐	☐
12	Do I have a clear plan on how to accept payments from customers?	☐	☐
13	Have I spoken to the bank about merchant services to accept payments?	☐	☐
14	Do I have a transaction account?	☐	☐
15	Have I considered my short term cash flow funding options?	☐	☐
16	Have I spoken with the bank about overdrafts and business credit cards?	☐	☐
17	Have I considered my long term funding options?	☐	☐
18	Have I spoken with the bank about business loans?	☐	☐

Checklist five: "launch" stage

Sales			
Question		Yes	No
1	Is my target market aware that my business is open?		
2	Does my target market know what I am selling?		
3	Is my target market aware of the value of my products / services?		
4	Does my target market know how to find me?		
5	Does my target market have a compelling reason to try my product or services?		
6	Do I know what my competitors are offering?		
7	Can I counter my competitor's offerings?		
8	Do I have a webpage for my business?		

Events			
Question		Yes	No
1	What does a successful launch event look like for you?		
2	Have you organised all key elements of the event? • Catering • Guest speakers (if relevant) • Samples of products/services you are selling • Pamphlets • Giveaways/prizes • Your presentation/speech • The tone you want to set for your business • Tickets to attend (if relevant)		
3	Have you invited your key guests? • Friends and family • Key sponsors and supporters • Those that have helped you get to this point • Target customers • Potential suppliers		

WPBW1748 (05/15) 444348