



**CENTRAL
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A WORLD OF DIFFERENCE

NEW ZEALAND

GOING INTO BUSINESS



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This handout has been prepared by Business Development as a quick reference checklist to use if you are planning to start up your own business.

For more comprehensive information please visit a BIZ stand. These are located at:

Alexandra: CODC offices main foyer, 1 Dunorling Street

Cromwell: Cromwell Resource Centre, 5 Murray Terrace

Ranfurlly: Ranfurlly Visitor Information Centre, Charlemont St East

Roxburgh: Roxburgh Visitor Information Centre, Scotland Street

Also, visit the BIZ "business information zone" home page at www.biz.org.nz

A BIZ "Starter Pack", containing much of the information found on the biz stands is available from Business Development.

The information provided here is not intended to be a substitute for professional advice. However, the more you can do by yourself, or the more informed you are when seeking professional advice, the more straightforward and (hopefully) cheaper the process will be.

Be Passionate

Remember that you will be spending a large amount of time in whatever it is you do. The prospect of being your own boss and making your own money may seem enough for many people. However, there is enough evidence to show that for start up businesses to succeed the owners need to be totally dedicated. This only really comes if what you are doing is close to your heart. Before buying a business or a franchise you need to be honest with yourself about how "into it" you really are. If you have doubts then another opportunity may be a better option.

The Field Of Dreams

Another reason why businesses fail is the "Field of Dreams" syndrome - *if you build it they will come!* Wrong! Do not commit yourself to any business idea before finding out whether there is a market for your product or service. Also, find out how strong the competition is. These two bits of information will help you work out if there is a real opportunity. An idea by itself is not enough.



Fail To Plan - Plan To Fail

There is better chance of things happening if they are part of a plan rather than some vague idea. A business plan doesn't need to be a 100 page detailed tome. What is important is the thought that has gone into it. As a minimum, try to address the following questions or issues:

1. What is the purpose of the business?
2. What are the business objectives (financial, scale, market share, do you just want to be filthy rich or balance other life goals, etc?)
3. Who are the customers?
4. What is the competition? Think widely here - if you are selling firewood then home insulation is a competitor!
5. How could the business fail?

A bank or an investor will expect to see a detailed projected cashflow before putting any money in.

For more information on planning get the NZTE booklet "Planning for Success" from a BIZ stand.



Buying An Existing Business

In business you are looking for a return on your investment and an income. Before buying a business or buying into a franchise it is vitally important to satisfy yourself that what you are purchasing will enable you to meet your financial targets. This is called "due diligence". There are four components to this:

1. Reviewing the current ownership, including any liabilities that may pass to a new owner.
2. Reviewing past performance. Going through the books is a good job for an accountant.
3. Ensuring plant, stock and equipment is valued correctly. If you don't have the right skills get someone, preferable independent, who does.
4. Goodwill. This potentially the trickiest. Goodwill is the "intangible" value associated with, for example, a business name or a brand. This may have been part of the initial attraction to the business. Regardless, if you can talk to customers and suppliers you may gain some feeling for how well this is valued.



Choosing Professional Advisers

There are a range of professional advisers who can give you comprehensive assistance in many areas. This includes Human Resources, marketing, planning and compliance. Start by identifying the areas you need assistance in. Getting a second opinion before committing large sums is a very good idea. The benefit of good professional assistance will outweigh the cost of relying on yourself in an area you know little about.

Finding someone who can act as a mentor to you over the early days is also a great idea. NZ Trade & Enterprise has a very good section on mentoring on its website www.nzte.govt.nz under business development.



What Legal Form For The Business

Basically there are three possible structures for businesses in New Zealand. They are:

1. Sole Trader
2. Partnership
3. Registered Company

Which to choose should be weighed by the expected scale of your planned business. In a nutshell, a sole trader is the simplest form, a registered company more complex but has the advantage of limiting your personal liability. A partnership relies on the ongoing ability of people to work together - imagine the consequences of a falling out. Each form has tax consequences. Good detail can be found on these from the brochure "BIZ Steps" which can be obtained from the BIZ stands.

Forming A Company

An accountant will do this for you - for a charge. If you feel confident on the internet, visit the New Zealand Companies office at www.companies.govt.nz . It will step you through registering your company name, registering your company and filing annual returns. The standard charge to register a company is \$60.

GST Registration

The first question is: do you need to register for gst? Technically if your company doesn't expect to earn more than \$40,000 the answer is no. However, there may be some advantages in registering - especially if you are going to incur large start up costs - even if you don't expect to make that threshold. You also need to consider whether you are planning to sell to the public or to other businesses. To help make the decision obtain a copy of "GST - Do I need to register" by IRD from a BIZ stand.



Tax

A company pays tax on trading profit. No profit - no tax! The real skill of an accountant is to ensure that your total tax is minimised. Total tax may be the combined amount of your company's tax and your income tax if you pay yourself a salary. This is definitely where it pays to have an accountant - they will tell you how best to work this. Also, if you are working from home you can claim some of your household expenses including rates, power and phone as business expenses to offset income.

A word of caution: while it is legitimate to minimise tax it is illegal to avoid it. Failing to declare income or profit is not a long-term strategy for a successful business!



Setting Up A Web Presence

The internet is an increasingly important means of letting people know about your company and what you offer. There are any number of web hosts that will help to find and register a domain name and to design, upload and maintain your web pages - for a fee! Charges seem to vary greatly, so shop around and find a service that meets your scale, intentions and budget. If you are already fairly computer savvy you can do a surprising amount yourself.



Intellectual Property

There are two parts to this:

1. You don't want someone copying your idea, name or brand;
and
2. You don't want to find out that your idea, name or brand is already someone else's (or near enough that it's going to cost you money to defend or change).

Depending on what you are doing it may pay to look at trademark or copyright protection. Most lawyers offer this service. However, you can do some background search yourself. The Ministry of Economic Development has a very good summary around the whole issue of intellectual property, including trademarks, copyright and design. To find out more visit www.med.govt.nz and look under regulation. If you feel confident you can go through the process yourself by visiting IPONZ (Intellectual Property Office of NZ www.iponz.govt.nz).

Employing Staff

If your business requires additional people then you will need to put some thought into employing staff. The reality is that there are no shortcuts here - "under'-the-table" arrangements or "jobs for the boys" could have dire consequences if things go wrong.

The Department of Labour has two excellent guides on "How to Hire" and "Employment Relationships". These are both available from BIZ stands.



The Price Is Right

For commodities the market sets the price. However, for many businesses there is an opportunity to differentiate the product or service from others on the market and set a price that will result in the best return. When setting a price some of the things to consider are:

1. How much did it cost and how much margin / profit is wanted? (this is cost plus pricing).
2. What are competitors selling for and how does their product compare with yours in terms of features, quality, availability etc?
3. How elastic is demand? Elasticity refers to how price changes as demand changes. An inelastic good is one where demand changes little as cost changes. You can charge more and customers will still purchase your goods or service. For example, petrol is relatively inelastic, airline tickets tend to be elastic.
4. What is the optimum price to get the best return? Rather than trying to sell to everyone there is usually a price that enough people will buy at to be most profitable. For example, not everyone drives BMWs. Another excellent job for an accountant is to look at the scale of your business.
5. Finally, how much are people prepared to pay? Ultimately, your customers will determine how well you have priced your offering.



The Valley Of Death

Knowing about the valley of death could save your business. This term refers to the start-up period where cashflow can run negatively for most businesses - lots of expenses as supplies are purchased, product made, inventory accumulated, contacts made and promotions undertaken - but not much income! Even if appearing to make a profit the business can run out of cash to pay its bills - which is another name for insolvency! However, it is a temporary thing as sales and purchases become more balanced over time. Having a pool of funds, usually in the form of an overdraft facility, over this first period may be a lifesaver. This is another reason why a cashflow projection a bank can buy into is a necessity. You will need to demonstrate with robust numbers that your business will offer a return on investment within a reasonable period.

Exit Strategy

The final word. On the surface a negative thing, having an exit strategy is actually a positive and recommended planning objective. Whether you take it up or not, an exit strategy is basically a line in the sand at which point your business is at the level where it can be sold as a going concern and you can make your planned return.

It is the hope of Business Development that this guide has provided you some useful insight into the things to consider when setting up a business. The key point is that most good businesses are good because the owners or managers spend time working on as well as working in the business.

Business Development would like to hear from you if you have any comments on this guide, including (once you have been out doing it for a while) what things you have found most useful or challenging.



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