

# Plan for prosperity

**Tony Blackie and Jane Lindhe**

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Small businesses may need big dreams, but they also require meticulous planning. Ten simple steps aim to take the pain out of painstaking.

Becoming a business owner is the dream of many emotional consequences.

Although estimates vary depending on the definition of small to medium enterprise, about one in three start-ups fail before reaching the first-year hurdle. Statistics show that the main reasons for these failures are financial mismanagement and a failure to keep proper records such as invoices and sales data required for taxation purposes.

Much of that can be sheeted home to a lack of business experience on the part of the business owner.

Then there is the issue of cash flow and the business being undercapitalised at the start - this can force an owner to start dipping heavily into savings or personal borrowings, which often sets the business, and the owner personally, on a slippery slope to failure. So establishing a business on firm ground is vital.

ThinkEvans is a small consulting firm specialising in assisting SMEs through the management and process hurdles. Managing director Carolyn Evans, who works closely with the Australian Business Foundation, says one of the key elements for creating a stable and successful business is a well-planned human resources program.

"The growing importance of SMEs to the Australian economy means that they have to get this right because the loss of one key person can have a major impact on the business. Business owners now don't need to be standing on the burning deck before realising the ship is on fire. I am finding that many employers are now having to look at the time-honoured process of talking to staff and developing flexible arrangements."

Evans says flexible agreements aim to give staff what they need and ensure productivity levels are maintained. The key to HR policy is creating an environment in which staff want to stay. "You can't buy loyalty with money, but you can with flexibility in work arrangements."

The Australian Bureau of Statistics data on SMEs shows that there were 1.9 million active SMEs in

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Australia in June last year. However, despite a generally strong economic performance and growing population, fewer businesses are being established. ABS data shows the number of new businesses grew by 2.2 per cent in 2003-04, fell to 1.5 per cent in 2004-05 and increased by only 1.3 per cent in 2005-06. At the same time, gross domestic product grew by 4.1 per cent, 2.7 per cent and 2.8 per cent respectively.

The ABS figures also show that of the businesses started in 2003-04,

slightly more than 41 per cent had closed down by June 2006, most of the failures occurring in the first year. The figures indicate that the longer a business survives, the greater are its chances of survival.

## The 10 steps to starting a successful business

For long-term survival, good forward planning is vital, RSM Bird Cameron partner Jamie O'Rourke says. He has developed a 10-point checklist for his clients and maintains the 10 basic steps should be followed by every prospective business operator.

### 1. Identify the reason for going into business

Most businesses that fail are started because the owner has a personal interest, Jamie O'Rourke says. "It is somewhat like a hobby. They enjoy working in the area but haven't really thought how they can make money out of the business. There has to be a profit motive. Running a business requires income, there are costs involved, and therefore you have to be sure you can cover them." A survey by RSM Bird Cameron looking at the main elements of small to medium enterprise success showed the leading reasons for starting a business, in order of magnitude, were: creating wealth, seeking a challenge, becoming one's own boss, and earning a living.

### 2. Understand your industry

"You have to ask questions of the people who are already operating in the industry," O'Rourke says. "You are not looking for a mentor at this stage, just some advice on how the market operates and some hints on how to avoid the pitfalls. Every industry has unique circumstances, but these are usually poorly documented and the only way to find out about them is by asking someone who is already there." He mentions a businessman he tried to talk out of establishing a scuba-diving business that was doomed to fail at the first hurdle. "For starters, he was located in a town 200 kilometres from the coast. Clearly, the idea for the business was personal interest and not clear business thinking. He didn't do the research. You need water for scuba diving." The business failed within a year and the would-be entrepreneur lost his savings.

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### 3. Create a business plan

Too few business owners produce a realistic business plan, O'Rourke claims. This results in a lack of a cohesive direction and targets. "It's OK to get assistance," he says. "But the ownership of the business plan must be with the person doing the business. You can use research and prove up the business concept. This should be a dynamic document that changes before a final copy is produced." Often, business owners build into the business plan unrealistic revenue projections that can have fatal consequences. "For example, I had a client, an IT services business. In the projections, he showed that revenue would be \$10 million from operation in three years from a standing start. In actual fact, the real revenue in year three was less than \$1 million."

### 4. Build a marketing plan linked to revenue

A start-up company needs to define its target market and how it will be reached. O'Rourke again illustrates the consequences of failing to do the groundwork properly. "A small legal firm was spending between \$60,000 and \$88,000 each year for three years on radio ads. They had no way of formally tracking whether the ads resulted in revenue. Eventually, they worked out that the bulk of their clients were coming from word of mouth, so they stopped the ads."

### 5. Plan finances - or a budget and cash-flow projection

This should accommodate planning for growth and an estimate of what financial resources are needed. Once the business is under way, the performance can be monitored through the budget projections.

### 6. Determine human

resources needs

With employment at its highest level since the 1960s, the engagement and maintenance of staff is possibly the greatest challenge of all to an existing business. Developing a recruitment and staff-retention policy is vital. Develop the structure of your contractual agreements with staff through negotiation. Pinpointing particular roles within the company and who would be best to fill them is important. O'Rourke says it is no longer a simple matter of "one size fits all" when it comes to workplace conditions and benefits. Dealing with the baby boomers (older staff), as opposed to generations X and Y, requires different motivating factors.

### 7. Consider logistics and operational requirements

Location, location, location. The site of the business is important. Depending on the type of

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business, it can mean make or break. The same goes for the purchase of equipment including technology.

## 8. Establish business structure and administration

Most SMEs are started by people skilled in a particular area, which is not usually in accounting or business practice. It is therefore crucial to select appropriate accounting and legal advice. When establishing ownership, sound legal advice on the best structure to safeguard all equity holders can save potential problems in the long term. Structuring the business to ensure optimal taxation outcomes can save a lot of money.

## 9. Consider obtaining

external advice

"Choosing the right advisory partners is very important from a knowledge and business protection viewpoint," O'Rourke says. "The advisers may be your accountant or your lawyer, but they may be somebody completely different." Interacting through business associations can be a source of advice, but the growing number of consulting firms catering to SMEs can provide more tangible assistance. SME operators must be prepared to pay for advice.

## 10. Establish exit strategies

The best time to establish an exit strategy is when you start the business. Many SME operators leave their plans for getting a return on the investment and equity they have put into a company until it is too late. "To maximise the return, you need to plan not only the commencement but also the divestment," O'Rourke says.

Tax rules

The Australian Taxation Office has provided pointers on what owners must do as soon as they start a business operation.

1. What is the best legal structure? Tax and legal liabilities are different for sole traders, partners, companies and trusts.

2. Do you need a tax file number or an Australian Business Number? Sole traders use their personal tax-file number for business purposes but partnerships, companies and trusts need a separate number. The ABN is not compulsory but having one makes registration for the goods and services tax easier; without one, some businesses can withhold 46.5 per cent of payments.

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3. What records should you keep and for how long? Some documentation must be kept for up to five years or longer. Penalties apply if records are poorly kept or non-existent.

4. Do you have to register for goods and services tax? You must register if the business turns over \$75,000 or more a year, if you are a taxi driver or provide limousine or hire-car services.

5. Do you need to withhold tax from employees? If you pay employee's salary, register for Pay As You Go and send the amounts to the tax office.

6. Do you have superannuation obligations to employees? You must pay 9 per cent of an eligible employee's earnings base into a complying super fund or retirement savings account. Do this at least quarterly. If not, you will have to pay the superannuation guarantee charge to the ATO which, unlike regular super contributions, is not tax deductible.

7. Do you need to pay fringe benefits tax? This can sneak up, and it is important to get advice because the ATO has made clear it is checking that small businesses are meeting their obligations. SMEs must lodge an annual fringe benefits tax return.

8. Do you need to lodge activity statements? Most businesses lodge activity statements and pay their tax every three months. There are penalties for late payment.

9. Do you need to lodge an income tax return? Yes, even if you don't think you owe any tax.

Health check a diagnosis

It is imperative for small businesses to review their processes regularly, accounting firm KPMG says. To this end, it produces a business health check survey for its clients.

The health check comprises 30 questions covering a business owner's personal and financial wellbeing, the business's finances, customers and products, human resources, processes and systems.

A diagnosis is provided, based on the survey, in which every owner should ask:

1. Has your business had a recent health assessment? Do you have adequate life insurance, income protection and/or total and permanent disability insurance?

2. Have you measured the return on investment, including hours worked each week, and does it justify the money invested and risks associated with the business?

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3. Have you forecast your cash-flow requirements over the next six and 12 months?
4. Have you optimised your debt and equity structure (having regard to security, guarantees and covenants)?
5. Are you adequately resourced in terms of staff for the next 12 months?
6. Do you have succession planning in place for the business's key employees and owners?
7. Have you undertaken an analysis of the profitability of existing clients and taken appropriate action?
8. Do you have a clear strategy for developing new business with existing and new customers?
9. Have you documented and secured important supplier arrangements including price, terms, continuity and quality?
10. Have you looked at the spread of your total wealth to lessen the risk of financial ruin should the business stagnate or, worse, fail?

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