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BEGINNING IN BUSINESS SERIES

PITFALLS IN STARTING A BUSINESS



Paper 01.02



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BEGINNING IN BUSINESS SERIES

PITFALLS IN STARTING A BUSINESS



Paper 01.02



1. Starting Out

1. People wanting to be their own boss often move into small business with many unreal aspirations.
2. You often hear of a person committing themselves to the absolute hilt to buy a business, although they know little about management, bookkeeping or accountancy and even less about the trade or business in question. To obtain the necessary capital they draw their savings out of a bank or take out a personal loan from a finance company secured by a second mortgage against their house.
3. They often do this without seeking any advice from a Professional Accountant, Solicitor or Bank Manager.
4. By doing this they start out on a difficult and competitive task with inadequate security, or advice, lack of forward planning and a very high probability that they will become one of the small business failure statistics.
5. You also hear the stories of people who started out with very little and are now operating multi-million dollar businesses. These people are winners in the true sense of the word. However for every winner, there are unfortunately lots of losers.
6. Challenges, hard-work, anxiety, mistakes, problems, long hours and more problems are much more likely to be the story of the average small businessperson than a lightning path to fame and fortune.
7. This is not to say that you will not end up a multi-millionaire from starting out in your own small business. It is up to you how you manage the "business of the business".



2. You Can Improve Your Chances Of Success

1. You have got more likelihood of achieving success if you have been:
 - Adequately advised from the start.
 - Have recognized your management deficiencies.
 - Have a business plan.
2. The highly successful entrepreneur is very rare. When they do achieve fame we hear about them because they are used as a model of what that success can achieve. However it is not necessary or even desirable that every person who sets out in small business will become a multi-millionaire. In the perfect world every person who sets-up in business should be able to:
 - Adequately manage their business.
 - Earn a reasonable salary for the time spent in operating the business.
 - Earn a reasonable rate of return for the risk associated with the investment of money in the business.
 - Ultimately be able to retire with dignity.
3. However, in many cases the industrious operator working 60 hours plus a week for little more than would be gained from paid employment, for 37.5 hours per week, perhaps even less, is the usual result.
4. The first essential group of requirements for going into business include:
 - Adequate resources of capital.
 - Some reserves in hand.
 - Some pre-planning.
 - Professional advice before starting a business or signing a contract.
5. Many people will start out in business, survive hand-to-mouth for two or three years, using up their savings and sell out at a loss in a state of exhaustion and disillusion. At worst, they go bankrupt and in so doing do not pay their creditors, have to sack their employees and become another failure statistic.

3. Major Reasons For Failure

The major reasons for small business failures are lack of:

1. Management skills.
2. Bookkeeping knowledge.
3. Accounting knowledge.



4. Adequate capitalization.
5. Cash Flow Management - Debtors, Stock, Taxation Payments, Work in Progress Control, GST Control and Payments.
6. Business Plans.
7. Marketing knowledge.
8. The appreciation of the need to have empathy with customers.

4. Successful Business Is Based On

1. Management skills - particularly in planning the operations of the business.
2. Prompt and regular financial reports.
3. Monitoring of stock, work in progress and debtors.
4. Staff supervision, training, motivation and leadership.
5. The productive employment of capital.
6. Having some basis on which to make decisions.
7. Understanding basic principles of bookkeeping.
8. Know something about the trade or business.
9. Have received training in or taken detailed advice on the likely business problems to be encountered in that type of business.
10. Have an aptitude to succeed through business flair.
11. It is desirable for any person contemplating going into a business that they have previous knowledge of that industry or if not, that they should seek paid or unpaid employment in the industry for a reasonable period prior to purchasing into that type of industry so that they can convince themselves that the industry/business and attendant lifestyle is to their liking and also suits their family environment.
12. Being able to write a detailed Systems Manual on how the business operates and then implement daily, weekly, monthly, 3 monthly, 6 monthly, and annual procedures to carry out the strategies outlined in the Systems Manual.



5. Professional Advice Is Important

1. The high failure rate of small business is a sad loss of human potential and capital. It cannot be over-stressed that a move into self-employment demands careful planning and competent advice. No one should contemplate going into small business or purchasing a business without first seeking advice from a Professional Accountant, banker and solicitor. This advice should be sought before signing a business contract, business lease or resigning from your present employment.
2. It is desirable to seek the advice from someone who can demonstrate that they have experience gained over many years in business. Unfortunately not all accountants are competent or interested in giving small business advice as some have concentrated on tax return preparation and audit matters, whilst some solicitors are only interested in litigation and conveyancing. It is therefore necessary to ensure you receive advice from a competent commercial solicitor. You should be dealing with a bank which has an interest in small business, or more particularly, at a branch of a bank where the manager has an interest in small business.

6. You Have To Be Realistic About

1. The hours you have to work in the business.
2. The amount of capital you have to invest.
3. The need to seek continual ongoing help from external advisers especially your Professional Accountant.
4. The need for an adequate bookkeeping, management and accounting system to be implemented so as to ensure that regular management and accounting reports are available, which will assist you in managing the business.
5. The need to engage a Professional Accountant interested in small business management and to utilize those services on an ongoing basis throughout the year.

7. To Avoid The Pitfalls

1. Do not go into business unless you have sufficient capital to fund the initial requirements adequately, without borrowing heavily and incurring heavy repayment strains.



2. Treat any amount sought as "goodwill" with the utmost suspicion. Seek to establish the extent to which this amount is justified in terms of the on-going potential of the business to underwrite this sum and allow it to be recovered later should you sell the business.
3. Look for an area of business where you have some ability and understanding of the techniques or in which you have developed contacts and special skills or in which you have worked for some time either on a paid or unpaid basis.
4. Check and cross-check all figures presented for an on-going business and establish as far as possible beyond doubt that you can not only retain this level of trading but improve on it.
5. Try to be realistic when making estimates and plans and do not get carried away.
6. Satisfy yourself that the business is run in such a way that you can establish and maintain strict control of overhead costs, stock purchasing and wages.
7. Think about and plan for "off season" trading.
8. Inquire about approvals given for new competitors, any proposed new shopping centres, road changes etc. In other words, have a good look at the total business environment - not just the particular business that you are reviewing or planning to create.
9. Seek to establish the overall market potential for your products, service or trade and discover whether there is room for another operator in the field you propose to enter.
10. What special skills do you need to adequately service your customers - e.g. should you be able to speak a foreign language?
11. Seek competent accounting and legal advice before signing a contract and before setting up a new small business.
12. Try to think ahead and decide whether or not you will enjoy operating this particular business - whether it will suit your life-style and suit your family environment.
13. Discuss with your family your working hours and what their commitments to the business might be.



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14. If you implement these strategies you are giving yourself a reasonable chance of avoiding the pitfalls of starting a business. Good Luck!
 15. Remember - Accountancy Firms are there to assist you.

DISCLAIMER

The forms and commentaries contained in this paper are provided as a guide only and should not form the sole basis for any advice in relation to the particular situation of any person without first obtaining proper professional advice.

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