

# Starting A Business At Home

Rolfe Peacock, Chapter 4 appendix A, *Understanding Small Business: Practice, Theory and Research* (2<sup>nd</sup> edition, 2004).

This overview divided into the following sections is for people who are considering starting their own business at home.

1. Should You Start A Business At Home ?
2. What Basic Resources Will Be Essential ?
3. What Is Your Market ?
4. What Further Requirements Are There ?
5. What Financial Management Will Be Needed ?
6. Where Can You Get Help ?
7. Preparing Your Business Plan.
8. Advice For Starters.

A number of matters need to be thought through before proceeding, and these are discussed in Sections 1 and 2. Then planning is necessary, so that all requirements can be considered before being put into effect in the best manner. Sections 3 to 6 are concerned with planning.

In Section 7 you will learn how to prepare your own business plan, and advice is provided for starters in Section 8.

Studies of two businesses and their owners who commenced at home will be developed to illustrate basic essentials of starting up at home.

## 1: Should You Start A Business At Home ?

### *Key points*

***Background to home businesses. Why start a business at home ? What personal qualities do you need ? What are your business objectives ?***

### **Background to Home Businesses.**

Home businesses are those that operate at or from home. They are an important and growing sector of our country. There are about half a million home businesses in Australia, and they form more than half of all small businesses. They involve about 12% of Australian households.

Small businesses may be defined as enterprises that employ fewer than 20 persons - except for manufacturing, where small businesses are those that employ fewer than 100 persons. Home businesses are at the smaller end of the spectrum. More than 700,000 persons operate their own home businesses and about one third are women.

There are many reasons why some home businesses will survive while others fail. It is therefore important that people contemplating owning and running their own business at or from home do so with as much knowledge, assistance and prior planning as possible. What personal qualities, skills and resources have you already got, and what further ones will be needed for success? These questions will be explored as we examine the requirements of starting a home business.

Operating your own business at home can be very rewarding, but it can also be demanding in terms of time and effort. Pressure on you and your family can be great, but so can the personal and financial rewards. There is no guaranteed formula for success in any small business, but it has been shown that if you have a viable business idea, plan thoroughly before starting, seek competent assistance and follow basic management principles in the running of the business, you will greatly improve your chances of success.

Patience and perseverance are necessary from the outset. You will need to 'grow' your success.

Before writing this overview the writer made contact with a cross-section of successful owners of home businesses, and many aspects of the following reflect their experiences.

## Why Start A Business At Home ?

There are a number of reasons why people prefer to own and manage their own business. This may be in order to:

- be independent and be their own boss;
- be creative in exploiting an invention or idea or providing a service;
- provide employment for family members;
- increase their income;
- escape from unsatisfactory employment in a big firm or the public sector;
- provide an alternative following retrenchment;
- change their lifestyle; and
- provide more job satisfaction.

Strong motivation is needed to be a successful small business person, and this generally comes from the more positive of the above reasons - for example, to be creative.

But why start a business at home ? This can mean actually working at home, writing, designing or cooking for example, or it can mean using home as the base for business activities such as office cleaning, renovating homes or repairing electrical equipment.

This was a question answered by some Adelaide home business proprietors. Here are the reasons given after having worked at or from home for more than twelve months:

*it cost little to start ... can conserve capital ... no rent and low overheads ... can claim home office expenses as tax deductions ..*  
*can provide own time schedule ... saves travelling to and from work ... can service customers for 24 hours a day ..*  
*provides a pleasant environment for working ... is peaceful ... can talk to clients in a warm atmosphere ...*  
*provides an interest on my retirement at low cost and with little risk.....*  
*can start part-time while bringing up small children ... because of a young family I wanted to work but keep them in their own environment and not make too many changes to their family environment ... my wife is available at home to do clerical work without leaving the children ...*  
*ideal base from which to start so that I can learn the ropes without taking a big plunge ...*  
*a way to resume the profession I had before the children arrived and still be available at home for them ...*

Use the following Self-Review to identify the reasons why you want your own business at home.

### SELF - REVIEW

List your reasons for wanting to have your own business.

Now list your reasons for wanting to have a business at home.

Indicate any likely problems that could occur if you had a business at home.

There can be a downside to having your own home business. Adelaide proprietors came up with the following disadvantages:

*feelings of isolation ... separated from colleagues and peer group ...  
cannot go home to get away from work ... you never leave work ..  
family interruptions ... business activity disturbs the family at times ... the family bothers you when you should be working ...  
intrusion of visitors and friends ...  
difficult to look professional with high-profile clients ...  
lack of room ... ran out of storage room for stock ... restrictions of council regulations ... restrictions in activities due to limited amount of noise that can be made in residential areas ...*

You may feel now that you want to be a business owner at home and could overcome any likely problems. If not, should you continue? Talk this through with your family, friends and business acquaintances.

Strong motivation is necessary in commencing a business, but so are some personal qualities.

## **What Personal Qualities Do You Need ?**

Being self-employed is not as straightforward as being an employee from nine to five on weekdays. Test yourself by answering the following questions:

### SELF - REVIEW

*Are you a self-starter ?*

In a small business you are the owner and manager in one. There is no one else to prod you along.

*Are you a determined person ?*

When things become difficult and pressures accumulate, can you stick in there?

*Are you a hard worker ?*

The success of the venture depends upon you. All successful business people agree that being prepared to work long hours is essential, especially at the early stages.

*Are you a good organiser ?*

Not only do you need to organise all the details of the business, but you also need to ensure that they fit into your home situation.

*Are you in good health ?*

The long hours, pressure and uncertainty of self employment are not for those in poor health. On the other hand, some people of average health thrive if they can see their goals being achieved.

*Do you relate well to people ?*

Your business success will depend at least in part on how well you communicate with people and get them 'on side', whether as suppliers, as workers or as customers.

*Do you have a desire to achieve ?*

This could be the most important quality you could have. Because of the pressures of business, a motive to continue is essential. Having a goal and being determined to achieve it may be all that keeps you going at some stages.

If you answer 'yes' to all seven questions, this is a good sign. Most people would not achieve 100 per cent positive results in a Self - Review like this.

It cannot be expected that everyone would be suited to the lifestyle required of a home business operator. Alongside the benefits of working at or from home there are a number of personal challenges requiring unique skills and abilities. According to Alberta Economic Development and Tourism at [albertfirst.com/](http://albertfirst.com/) there are four such challenges.

1. Work is always there. For many people, going out to work provides a break from the routines and obligations of their home and family lives. And, going home from work means that work pressures are left behind. For home business owners, the challenge is to find a balance and a break from both types of responsibilities without leaving home.
2. Working too much. Discipline and organisation is essential if a proper balance is to be found between home business life and personal/family life. The temptation is to work day and night at or from home. This means that other parts of your life will probably suffer, such as relationships with family and friends. Working too much can increase stress causing the business to ultimately suffer.
3. Being productive while at work. Trying to work at home can be circumvented by daily normal household and family activities taking up too much time and energy away from the business. To wash the dishes or mow the lawn could be a way to avoid a difficult business decision. It can be also easy at times to become too comfortable and relaxed at home, or too easily distracted by children, neighbours, relatives, the telephone or the television. The challenge is to again find a balance between your personal life and your business requirements.
4. Overcoming a feeling of isolation. Because of your home business base you will have fewer opportunities to meet with and consult colleagues and clients to share ideas and gain from their enthusiasm and energy. Working alone requires a conscious effort to keep yourself motivated and focused. There are some methods to help you do this including networking which will be discussed later.

Consider carefully whether you feel you have enough of what it will take. Discuss your findings with your family, friends and particularly any small business acquaintances.

If you feel that you have adequate reasons to commence a business and have sufficient personal qualities, it is necessary to consider your initial objectives for the business.

## **What Are Your Business Objectives ?**

Before checking out your resources and then beginning to plan, you need to clarify the objectives for your business. These are the targets you wish to achieve, and they should be consistent with both your reasons to start and your personal qualities. The importance of this step is that it provides a benchmark against which you can later measure your actual performance.

Objectives should be reviewed regularly as the business progresses. Here are some examples:

- to provide a supplement to my existing income;
- to provide a sales outlet for my hobby;
- to grow to a stage where premises can be rented and sales expanded;
- to test the market for my invention;
- to provide a full income for myself and my spouse as partners; and
- to obtain twenty contracts in twelve months.

List for yourself the specific objectives you have in mind for your business.

## Overview

Home enterprises are an important and growing part of the Australian economy. You need to clarify your reasons for wanting to be a business owner and to commence at home. Have you adequate personal qualities to carry you through the initial start-up period and after? A desire to achieve is essential.

Only if you have a goal in mind can you ever know if you have achieved it. What are the objectives for your business?

Discuss these considerations with other people, especially with those most likely to be affected including the members of your family.

## Case Studies

Two case studies will be developed at the end of each Section. These summarise the key aspects of actual businesses that were commenced at home in South Australia and Victoria. They illustrate many of the issues and requirements discussed in each section.

### Superior Plant Hire

Mary Watts lives in an eastern suburb of Adelaide. After finishing high school she became a nurse and then completed a Diploma of Teaching (Nursing Education). At the age of 36 years she left her teaching career to have her third child. Her husband Malcolm is also a teacher. He teaches economics at high school level.

Mary decided that she would like a change in life style and yet knew that it was important to contribute to the family income. Having her own business seemed the way out, particularly as she would be in complete control. Because she would have to start from scratch with no actual business experience and little money, a start in a small way at home seemed the way to go. She could avoid some business costs, such as rental of premises. And she would be able to combine her new career with minding the baby.

Mary has always been a highly motivated person, keen on being successful. She loved her nursing and teaching careers and the constant involvement with people. Quite used to long hours and hard work, she was a good organiser.

### L. & R. Leaver

Len Leaver at the age of 38 years, had spent nearly twenty years as an employee in four different firms in the printing industry - ever since he was a printing apprentice. His wife, Ruth, had been employed in the personnel section of a large firm until the birth of their first child six years ago. Their second child was now three years of age, and the third only a few months old.

Len had been thinking of starting his own business for several years. Having thoroughly learned his trade and acquired many business contacts, he was looking for more challenge. His salary was barely sufficient to support the family, and he believed that in his own enterprise he could increase his income and avoid the need for Ruth to re-enter the labour force. Moreover, Ruth could use her talents in the business.

A start at home was convenient. Len could take six months' leave from his employment to start things off. Although machinery would need to be bought, he would not need to rent premises. It was important to both Len and Ruth that they work as a family unit, even involving the children later. Len said, 'I feel that people thinking of starting a business have to consider the family unit, not just themselves. Your spouse is very important.'

By working at home Len felt that flexible hours would be an advantage in his particular trade, and he would not need to commute to work each day. Ruth liked dealing with people and doing

bookwork and was a good organiser. Even though the children were young and kept her busy, she was keen to help manage the new enterprise. Len was a proficient technician, a hard worker and a good organiser of time.

Their immediate business objective was to increase their income above Len's present salary. In the long term, when the children are older, they plan to open up away from home in a larger way.

## 2: What Basic Resources Will Be Essential ?

### Key points

**Would you be a suitable manager ? What is your business idea ? What funds are available? What people could you rely on ? What facilities are available ?**

Many people start a business enterprise at home because fewer resources are needed than if they purchased an existing business or started up in rented premises. However, five resources will remain central to your success. These are your personal contribution, your business idea, your funds, the assistance of other people, and your physical facilities.

### Would You Be A Suitable Manager ?

In Section 1 we discussed the need for the small business owner to have some personal qualities, but you also have to be a well-rounded manager. You will have many hats; all the decisions will be made by you. You may have specialised skills or knowledge in one area, but there will be no other specialist within the business to whom you can turn for advice for all the other areas.

If your business is to depend upon a particular skill, your customers will need to be assured of your competence. Imagine advertising your services as a landscape gardener when your experience has really been limited to cutting and edging your own lawns.

Competence in one, or even two, specialist areas is insufficient to run your own business. You may need to learn some new skills such as financial management or advertising. Although you could seek advice in such areas, you will not be able to afford to pay for all of them.

You will also need to be the business manager. You will need to plan, organise, direct, delegate and control all aspects of the business. Unfortunately management incompetence is the biggest cause of small business failure. Your business at home will not be a complex empire, but the basics of good management will still be essential.

### SELF - REVIEW

Check your management capacity by completing the following:

1. Describe your main technical ability or skill.
2. List other technical abilities or skills that you believe you possess.

Answer Yes or No to the following management aspects:

I am a good organiser.

I never put off until tomorrow what I can do today.

I manage my private finances pretty well.

I can plan ahead.

I can delegate work to others.

Plain common sense is a desirable quality. I feel competent about this.

Knowing how, when and where to seek assistance is important. I feel competent about this.

If you are unable to complete anything in Nos 1 or 2 do not despair; see the next section regarding your business idea.

A lot of 'Yes' items is a good sign, but if you did not fare very well it may be worthwhile doing a brief business course.

## What Is Your Business Idea ?

The first asset in your business is you. But the second asset is your business idea - that is, the product or service that you plan to sell.

There are three basic avenues to starting a business at home which you could consider.

You could capitalise on your past or present employment experience. For example,

land broker  
beauty care  
electrician  
consulting  
home tutoring  
interior decorator

hairdresser  
plumber  
printer  
pest control  
catering  
secretarial services

You could capitalise on a talent, activity, special interest, special knowledge or skill that you possess. Perhaps this is based on a hobby, passed on in your family or simply acquired over the years. For example,

making crafts  
food preparation  
dressmaking  
handyman services  
photography  
making flower arrangements

sports coaching  
making toys  
personal network sales  
furniture restoration  
silk screening  
sewing

You could capitalise on a need in your community. Look at the classified advertisements in your local newspaper to find out what some people are already doing, whether from home or not. For example,

gardening  
lawnmowing  
dog-walking service  
bed and breakfast service  
courier service  
selling recycled clothes

rubbish removal  
house- and pet-sitting  
conducting garage sales  
errand service  
book exchange  
plant hire

## What Funds Are Available ?

Because of the risks associated with a new business it is recommended that you use your own funds to commence operations. In most cases this will need to come from past savings or from retirement payments.

Depending upon your particular venture it may take one to two years to break even and then two to five years to become self-sustaining. Your risk is reduced in this period if cash is not required to repay loans. Loans from relatives or friends can be embarrassing if you become unable to repay them. Banks and other financial institutions are unlikely to grant substantial loans unless you can provide security - for example, a mortgage on your home. In the event of default you risk the loss of the security.

Many successful business owners have started their business at home on a part-time basis, having the support of their normal salary. In other cases, one spouse has remained in employment while the other has started the business. Other people have preferred not to commence until their start-up fund has been accumulated.

If you are at present receiving an income that will cease or be reduced when you start your business, you will need to draw on your savings until the business becomes profitable enough to restore your income to the necessary level. Therefore, in estimating the funds available for the business, you need to review your personal financial situation.

You should prepare a cash budget for each of the next twelve months for your personal income and expenditure, assuming that the business commences. What shortfall do you need to provide for? **This amount should be added to the funds needed to commence the business.**

CASH BUDGET (household income and expenditure)

July 19... to June 19 ...	July	Aug	Sept	.....	Feb	Mar	Apr	May	June	<u>Total</u>
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Receipts

Wages (after tax)  
 Share dividends  
 Commission, interest  
 Family allowance  
 Sale of shares, etc.

Total receipts

Payments

Food  
 Rent/mortgage repayments  
 Council rates, water rates  
 Electricity, gas  
 Telephone  
 House maintenance  
 Household appliances  
 Furniture  
 Clothing, shoes  
 Hair care, cosmetics  
 Education  
 Extra tuition fees  
 Hobbies, sport  
 Membership subs  
 Books, newspapers  
 Theatres, concerts, etc.  
 Restaurants, bars  
 Holidays  
 Gifts  
 Transport  
 Lease/loan payments  
 Medical costs/insurance  
 House/contents insurance  
 Car insurance  
 Income protection  
 Life insurance  
 Superannuation  
 Investments  
 Other ..... ..

Total payments

Surplus or Deficit

*Opening cash balance*

*Closing cash balance*

## What People Could You Rely On ?

Even if you have sufficient technical and managerial qualities and sufficient start-up funds, you will need to rely on other people for assistance.

As you are planning a business at home, could you more efficiently organise the family chores ? Particularly if you are a woman with children at home, it is not reasonable for you to complete all the housework, look after the children and manage a business.

Your managerial skills can be exercised in organising and delegating the chores to family members - once children are of school age they can assist. Then it may be necessary to pay for help on a regular or occasional basis, to handle cleaning, ironing, gardening or preparing meals.

Members of the family may also be able to assist with the business-packing, enveloping and delivering brochures, for example - although this will need diplomacy and a number of family meetings. Home will no longer be just that; it will become home and a business, so changes and adjustments will therefore be needed.

Both husband and wife may operate the business and thus complement each person's skills and experience. But if one spouse is employed away from home and the other runs the business at home, strong moral support for the latter would be important. Certainly the effects of the business need to be carefully considered in attempting to avoid strains on the marriage that could be caused by the time and effort needed in the business by one spouse.

There may be other people outside the family circle who could provide advice or assistance. You may have good connections with other business people, or an accountant, bank manager or solicitor. If your business idea is related to your present or past employment or a specific skill or activity you may already have a network of helpful people. Compile a list of all the people who would be able to assist you in your venture and what they could provide.

### CHECKLIST: PEOPLE

#### PEOPLE WHO COULD ASSIST

Names

How each person could assist

## What Facilities Are Available ?

Not every type of business can be operated from home. Least difficulty will generally be found in having an office-type activity as the basis of the business. Manufacturing activities can provide more problems. Requirements such as machinery, constant traffic or operations that cause undue noise or smells will generally not be allowed by local councils. There may also be restrictions on the number of employees allowed from outside the household. One of your first steps should be to check your local council requirements and ascertain whether your present or modified facilities are acceptable.

The design and layout of your work space at home is important. This is because you will almost certainly face personal and family interruptions as well as overlapping business and home/family responsibilities.

It is advisable to set aside a separate business space at your home. According to Alberta Economic Development and Tourism ([albertafirst.com/](http://albertafirst.com/)) there are several practical and psychological benefits from doing this.

- You will know when you are at work and when you are not. This gives the basis to establish boundaries between your business life and home life.
- Your family and friends are more likely to respect your work needs when they are aware that you are at work or not at work.
- Family activities and the comforts of home (easy chairs, television, food and drink)....) will provide less distraction.
- There should be better security and control over business documents and data. Important materials are less likely to be misplaced or mixed with personal or family materials.

To help you decide whether you have the space and facilities available at home, please complete the following checklist.

<u>CHECKLIST: FACILITIES</u>	No	Yes	Can this be organised at home?
Will I need the following?			
Work space specifically set aside for the business			
Storage area(s)			
Office equipment such as a photocopier or typewriter			
Separate business telephone			
Extra lighting			
Reception place for clients			
Separate clients' entrance			
Parking for suppliers, clients or staff			
Large letterbox for business mail			
Other			

Depending on the nature of your business and the layout of your home, many shortcuts and creative arrangements can be possible. A bare minimum may be sufficient at the beginning. For example, a large room could be partitioned with heavy curtains or with planters. Part of your garage or toolshed may be suitable for storage.

Most home business owners agree that it is important to set aside an area that is for the business only. You should be able to leave it, as is, in a hurry, and return to it to resume work when you desire. Also remember that it is the family's home you are using as your workplace. Obtain a clear understanding and agreement with the family as to how the business will impinge upon the home area.

Do not forget your neighbours. In many cases it will soon become obvious to them that you are working at home, so tell them the whole story first, explain the situation and ask for their support. You may find a few neighbours who would like to assist in some way. Or your discussions may

indicate that annoyance will be caused by noise or too much activity. Then you would need to carefully consider your situation.

## Overview

By starting a business at home, you can conserve resources and find them cheaper to use. At least five resources will be needed before you start.

You are the main resource. You may need a specific technical skill or competence, depending on the type of business. Certainly you will need to be an all-round manager-organiser in order to create and maintain a business within a stable home environment.

Your business idea is critical. Sales can be generated only from a service or product for which there are sufficient buyers.

You will need to supply sufficient funds to commence and keep going until sales increase sufficiently to generate cash profits.

Which people can you rely on for assistance? Start with your family members.

What facilities are available at home, and can these be used with local council permission and with the encouragement or forbearance of your neighbours?

## Case Studies

### Superior Plant Hire

As a nurse involved in many different situations, as a teacher and as a mother of two children, Mary has always had to be a good manager. After attending a course in small business management she realised that she therefore already had one of the essential requirements to run her own business.

Mary has loved plants ever since she was a child. Five years ago she undertook a short course in indoor plants, and her teacher told her that she had a good eye for aesthetics-how to arrange flowers and plants, how to balance a plant with a container, and how to be creative. For the past two years she has been taught by a local nursery owner how to grow and look after plants. She has had to pay to gain this valuable knowledge. Mary's idea for her business was to hire out green indoor plants. She saw this as an extension of a very interesting hobby.

Although Malcolm supported Mary in her idea, he liked his teaching position and had no wish to leave it. In any case his income could be relied upon while the new venture started. Mary had \$2000 in savings available for the initial costs.

Mary was able to obtain the assistance of an accountant known to her husband. She was particularly concerned about her lack of bookkeeping knowledge. The nurseryman agreed to provide consultancy help at a reasonable fee. Mary felt that her two children, aged 8 years and 10 years, could probably help in some ways.

She had a spare room available to use as her office. There was a driveway at the rear of the home so that plants could be delivered. Then every available source of shade could be used for the plants - front verandah, carport, and under large trees in the garden.

### L. & R. Leaver

Len and Ruth felt that their combined abilities would provide adequate management for their business. With his proven experience in the printing trade, Len could coordinate the technical aspects. Ruth felt at ease with suppliers and customers and could plan and organise the commercial activities, including the records.

The Leavers' plan was to specialise in small-scale offset printing. Len was optimistic about the possibilities: 'I knew perfectly well that with a printing business I had a very high chance of making a go of it.' During his period of employment in large printing firms he had often felt that a number of improvements could be made in offset printing by a person given a free hand.

Len and Ruth completed a family cash budget for the first twelve months and ascertained that they could provide \$10 000 for the business from their savings.

Len had many contacts from his printing career, including suppliers, couriers and typesetters. They already had an accountant who was able to assist, and they arranged an interview with an adviser from the State Government Small Business Corporation.

They converted a large brick garage attached to the house into a printing room, and the lounge was suitable for receiving clients. The local council inspected and gave approval for the arrangements; they stipulated, however, that only people living in the home could work in the business. Neighbours were advised of the business and were generally sympathetic, especially when told that the garage-printing room was soundproofed.

### **3: What Is Your Market ?**

#### **Key points**

**What is marketing ? What do your customers want ? Is your location suitable ? How can you differentiate your business idea ? What should you charge ? How can you promote your business idea ? Using the Internet.**

It is important that a business plan be prepared before commencing or purchasing any business. It is no less important for a business planned at or from home. Although it will probably be simpler than for a large business, many of the same requirements need to be considered. One of the purposes of this overview is to give you an idea of what these requirements are, so that you:

- do not omit the key requirements;
- gather information to give you a clear understanding of what is needed;
- check whether there are any gaps in the resources you need;
- refer to specialists in areas outside your expertise;
- develop and refine your ideas and preparations;
- have a blueprint for when and how you are to start, and
- have a basis for continuing to plan as the business progresses.

In this Section we shall examine the need to clarify the extent of the market for your business idea.

#### **What Is Marketing ?**

Marketing is concerned with customer needs, market research, location of the business, pricing, advertising, packaging, selling and distribution.

It is not sufficient to have an idea for a product or service that simply appeals to you. Will it generate sales and provide an adequate profit? You need to ascertain:

- How will you promote the idea ?
- Who are the customers ?
- How many customers are there ?
- What price will you charge ?
- How will you deliver the product ?

First of all examine your idea in detail and gather as much information as you can about it. If it is based on a product or service that you are well acquainted with because of your previous employment experience, or because it is based upon a hobby, then write down all that you know about it from a customer's viewpoint. Ask yourself questions such as:

- Is it a necessity, or a luxury or prestige item ?
- Will its demand vary from season to season ?
- What age group would it appeal to ?
- What social class would buy it - working, middle, upper ?

If you are not well acquainted with the product or service, you need to look for sources of information from which you can answer the same questions. Some of these sources are discussed in Section 6.

## **What Do Your Customers Want ?**

Only if you have satisfied customers will your business survive. This is especially true for a home-based enterprise, because it is unlikely that you will have passing traffic. You will need to develop a clientele, in the first instance, who will recommend your product or service to their friends and contacts.

Market research is the technical name for the procedure of finding out what the needs of people are, and how many likely customers there are. There are two basic methods to undertake this research, do it yourself, or pay a marketing consultant. The method you choose will depend on the complexity of your idea, the intended size of your operations and the availability of funds. Here are some suggestions if you decide to do your own market research:

- Read up on the subject of market research from the many basic books available on the subject.
- Undertake a short marketing course at a TAFE college.
- Ask suppliers and business people in the same or related field, or experts in professional or trade associations. Do this informally, or conduct a written survey.
- Look for relevant data published by the Australian Bureau of Statistics, the Australian Government Publishing Service, and business magazines. Your local library may be able to get some of these on inter-library loan if they are not on the library shelves.

Too many small enterprises have died at birth because the owners failed to do thorough market research. You should give considerable time and effort to this important aspect of your planning.

## **Is Your Location Suitable ?**

Location of the business is part of the marketing process. The location is often critical for businesses that rely on passing traffic, such as gift shops and newsagencies. This is not as important for the owner whose base is at home but who calls upon the customers (for example, electricians, plumbers and insurance agents).

Home businesses that need customers or clients to call cannot usually rely on passing traffic, and local councils may limit business advertising and signs in residential areas. It is therefore important that the location be suitable for customers who do call. Would they call in the first instance? Would they return, and would they recommend to their friends that they also call? To help you consider the location requirement, answer Yes or No to the checklist below:

#### CHECKLIST: LOCATION

1. My home would be easy for a new client to find.
2. The 'business' aspect of my home would appear professional.
3. It would be possible to have an entrance for clients separate from the family entrance.
4. Parking would be adequate.
5. Lighting, heating and cooling would be adequate for clients.
6. I could keep my home tidy during business hours.
7. The buildings, garden and surrounds would be tidy.
8. The family would not be a nuisance to clients.

### **How Can You Differentiate Your Business Idea ?**

The most successful enterprises are often the ones that provide something 'different'. They design a product or service, or have some special feature associated with it, that distinguishes the business from competitors. Customers become convinced that they have paid for a desirable item or service.

A bright idea may result in a different and desirable product, but it is more common to provide the differentiation by other means. You can probably recall businesses that have appealed to you because of their first-class service, attention to detail, good follow-up service and product reliability.

A home business, because of its small size and flexibility, can be in a good position to provide a 'different' product or service. Could you improve your business idea? Consider the checklist below:

#### CHECKLIST: PRODUCT OR SERVICE DIFFERENTIATION

Yes No

Could I design a unique packaging ?

Could I provide the product or service at hours when others do not ?

Could I provide service more quickly than others ?

Could I specialise in reliability ?

Could I provide a follow-up service at little or no cost ?

Could I add something else to make my idea exclusive and desirable ?

## What Should You Charge ?

The amount that you can charge for your product or services is important. First and foremost, the charge must include all your costs. It needs to be stressed that unless your charge is sufficient to cover all your costs your business will not survive very long.

Business costs are of two types: cost of goods, and operating expenses. The *cost of goods* comprises the costs to buy or produce the product and have it ready for sale. *Operating expenses* are all the other costs involved in running the business, such as stationery, advertising, postage, rent and financial charges. One advantage of the home business is that operating expenses can be minimised.

The price or fee that you can charge, less actual costs, provides your profit. This needs to be large enough to provide your financial compensation for staying in business and to provide funds for future growth. You will need to do your homework in estimating the price you should charge, because not only must costs be covered and a profit made but there are other considerations such as the following:

- minimum rates prescribed by professional or trade associations;
- prices charged by competitors;
- prices recommended by suppliers, and
- the amount customers would be willing and able to pay (the value placed upon your product or service should be checked in your market research).

In complex situations you may need to seek assistance in setting prices, and for this your accountant should be able to advise. As your business continues, you will gather experience in this area.

Be prepared to explain the basis for your pricing to customers without embarrassment. Remember that most people readily accept the motto "a fair day's pay for a fair day's work."

## How Can You Promote Your Idea ?

You may believe that you have a good business idea for a product or service at a reasonable price, but how will customers know this ? For a business at home it is unlikely that you will be able to afford massive expenditure for promotion or advertising, but it is important that you do set aside some funds for this and have a definite plan of action. Which of the following could you undertake to advertise your idea and business ?

### CHECKLIST: PROMOTION

1. Tell friends, relatives and neighbours and ask them to pass the word.
2. Have leaflets printed and dropped in local letterboxes.
3. Place an advertisement in the *Yellow Pages* of the telephone directory.

4. Use the classified advertisements of the local newspaper.
5. Design special packaging that identifies my business or product.
6. Design my own logo.
7. Print a business card.
8. Print a special business letterhead, envelopes and other stationery.
9. Arrange direct mailing to target customers.
10. Have a public sign (check with the local council).
11. Arrange displays at trade shows.
12. Other ideas

## Using The Internet.

As with small firms in general, home businesses are increasingly using the computer. According to the *Yellow Pages Small Business Index* (October 1999) 81% of businesses 'in-home' and 70% of businesses 'out-of-home' had a computer, in contrast to 68% of all small firms (less than 20 employees). Whereas 58% of small firms with a computer were connected to the internet, 69% of businesses 'in-home' were connected (and 34% of 'out-of-home' businesses were connected).

There are also thousands of Australians running home businesses on the internet, often at night. Commentator Amanda Gome (*Business Review Weekly*, August 13 1999) found that there are many people on their way to being full-time business owners by initially using the internet to supplement their income. You also can establish a web site and turn your skills and experience, an interest or hobby, into a part-time home business.

According to Gome, Christine Jones started The Jones Shop ([jones.com.au/](http://jones.com.au/)) selling Jones-labelled clothes on the web. By late 1999 the site attracted 500 visitors a week and 25% from overseas. Christine and her husband work full-time in a manufacturing business and run The Jones Shop on the side.

Christopher Carr and Doug Stewart played in bands for many years and now sell musical instruments over the internet. They set up the business with \$2,000 for a computer and access fees for an internet provider. They work on their web site at night and have normal full-time jobs in the day.

So there are good opportunities for you to consider a home business in cyber space. There are many useful ideas and suggestions on the internet itself, including aids to instal a business web site of your own.. Refer to Section 9 Using The Web.

## Overview

Customers are the lifeblood of your business, no matter how large or small it may be. Therefore you need to carefully plan for your market. It will not just happen.

First of all, make sure that you know as much as possible about your product or service. Then undertake market research - what do customers want, and how many are there?

Satisfy yourself that your location is as suitable as possible. Will it have an adequate businesslike image? Can you provide something different about your business that customers will particularly value?

You will need to estimate your price or fee, and it must cover all the costs of staying in business. Once estimated, stand by the figure as being a legitimate and reasonable one.

Use your imagination and ingenuity to promote your service or product. This should go beyond obtaining the initial interest of customers but should be aimed at ensuring their satisfaction in the long term.

Consider the opportunities available to you in starting your business from a web site at home.

## Case Studies

### Superior Plant Hire

Mary believes that she is in the people business. She is providing a service to people, and in a sense the plants are secondary. Rather than aiming to hire a plant to a customer, her intention is to help the customer ascertain how he or she can best use the plant and therefore hire the plant that is most appropriate. She has chosen to specialise in high-quality green indoor plants because cheaper, more common plants can be obtained easily from nurseries and supermarkets. Although her home is suitable for completing paperwork and for storing and attending to the plants, Mary chooses to deliver plants to her customers using a trailer, rather than have customers call. She feels that it is too difficult to portray a professional nursery image at her home.

Her nursery friend gave her guidelines for establishing prices, which in many instances are governed by competition for the various types and ages of plants. She tends to charge \$100 for the short-term hire of four to ten plants (all in attractive containers) for events such as weddings, parties and conferences. Her rule of thumb for long-term hire is to recover the cost of plants and containers within four months. Mary realises that she needs to learn more about long-term hire because of the variations in light conditions, lengths of life of plants and the amount of traffic from different customers, but this will come with experience.

One of the first things she did was place an advertisement in the *Yellow Pages* of the telephone directory. Each fortnight she puts a classified advertisement in the local newspaper.

She has had a colourful brochure printed and mailed to architects, real estate agents, interior decorators, churches, clubs, small businesses and offices. The brochure highlights the advisory aspect of the business and the prompt delivery and return of plants. Her nursery friend has been happy to distribute the brochure to his customers, and Mary asks her own customers to take copies for their contacts. She feels that satisfied clients and word of mouth will become her best advertising method in the future.

### L. & R. Leaver

From his experience in the printing industry Len believed that there were many people requiring small offset printing work. By concentrating on this area, L. & R. Leaver could provide a specialised service and could have jobs prepared faster than from large printers. Also by working from home they would be available outside normal weekday business hours. This would be a particular advantage to clients who were working people, especially those who were small business owners.

The Leavers live in a southern suburb of Melbourne and are close to a light industrial district. Their home is therefore in a sound location, and Len's research indicated that there would be little competition from existing printers for small-scale jobs. Their brick garage is suitable to house the necessary printing plant and able to be sound-proofed.

They have found it relatively easy to set their prices. These were already established in the industry and varied according to paper quality and the number of colours used for each particular job. They are able to charge at least 5 per cent less than the bigger firms because of their lower overheads.

Len already had a number of prospective customers from his contacts in the industry, but they also produced a leaflet advertising their specialised services and dropped it into letterboxes in their suburb and the adjacent district. Factories and small businesses were particularly targeted. They advertise weekly in the classified columns of their local newspaper.

## **4: What Further Requirements Are There ?**

### **Key points**

**What further resources are needed ? Should you have a business name ? What legal structure should you choose ? Is it legal for you to operate at home ? What insurance do you need ? Should you purchase a franchise ?**

In this Section we will consider further requirements as part of your planning procedure. You need as much information as possible before putting your plan on paper.

### **What Further Resources Are Needed ?**

You will probably need some equipment, even if it is very basic. Staff assistance may be required, and your management of the resource of time will be important.

Equipment needs will depend on the nature of your business and how large you need to be initially. If customers are to call, consider what may be needed in the form of seating, heating and cooling devices, refreshments and toilet facilities. If your business requires an office, you need to consider the purchase or hire of a facsimile machine, word processor or computer, and photocopier. A business telephone is a must in many situations, along with an answering machine, and a cordless phone may be an advantage. If you are a tradesperson you may need machinery in your garage, toolshed or special workshop.

At first you may be able to handle all the requirements of the business yourself, although family members may be able to assist. But peak periods may occur, a large order may come in, there may be a skill needed that you have not got, there may be something you do not wish to undertake yourself, or there may be a task that would be cheaper if not undertaken by you. Also, it may be economic to obtain assistance for some domestic chores (gardening, washing, ironing, childcare) so that you can concentrate on the business.

A part-time or full-time employee is unlikely until you can afford the salary and additional overheads such as superannuation and holiday pay. Casual help may be available; read the classified advertisements in your local newspaper, or place an advertisement yourself.

Use another small business; cleaning services, bookkeeping, childcare or printing can be paid for by the hour or for the task.

Your own time is a precious resource that will need to be managed if you are going to balance the requirements of the business, the home and social and recreational activities. No longer can you work for five days a week from nine till five away from home and have the rest of the week for yourself. Of course, if you are a mother you may not have had this advantage for many years ! At the planning stage, estimate the number of hours in the week that you can allocate to your business. Later you will need to be more specific in establishing your daily routine to optimise your time.

If your grand total in the following Self Review exceeds say 168 hours in a week, some adjustments are obviously needed, especially as you will probably underestimate the time needed for the business.

<u>SELF - REVIEW</u>	
	<i>Number of hours</i>
<i>Time needed at home</i>	
Meals	
Cleaning	
Shopping	
Relaxing	
Sleeping	
Hospitality	X
<i>Time needed outside home</i>	
Socialising	
Community and church activities	
Sport and recreation	X
<i>Time needed for the business</i>	
Production	
Travel and deliveries	
Time with clients	
Promotion	
Planning and administration	
Keeping records and paperwork	
Updating knowledge	X
<i>Total of all required hours</i>	XXX

## **Should You Have A Business Name ?**

It is not compulsory to have a special name for your business; you can operate under your own name. However, the selection of an appropriate name that is descriptive of your business can add to your business image. Copper Art, Knitwit and V.I.P. Lawn Mowing Service are typical of what have become well-known business names in Australia.

You would need to register your business name at your State Business and Corporate Affairs Office for a sole trader or partnership, or at the Business Centre of the Australian Securities Commission for a company. You should check that your chosen name is not identical or very similar to an existing business name. The name must then be shown on your stationery such as letterheads, invoices or statements.

## What Legal Structure Should You Choose ?

In general, small businesses are formed as sole traders, partnerships or companies. Because there are advantages and disadvantages associated with each structure, you will need advice from an accountant or solicitor. Although structures can be changed later, there can be adverse effects in doing this - for example, in relation to capital gains tax.

Your accountant or solicitor should give you expert advice on the following factors and therefore the desirability of a particular structure:

- the nature of the business operations;
- costs of the establishment and continuance of the structure;
- the degree of complexity of the structure;
- legal requirements;
- taxation aspects, and
- the ease of obtaining finance.

### Sole Trader

The majority of home enterprises are sole traders. This is the simplest form of ownership. You own all the business, receive all the profits (or losses) and assume all the risks. It is easy and cheap to establish and to administer, and there are few legal requirements. However, you are personally liable for all liabilities, and creditors ultimately can have a claim on most of your personal assets.

### Partnership

Many home businesses are partnerships, mainly between husband and wife. A partnership exists if there is an agreement (oral or written) between two or more people to carry on a business with a view to make profits. The ownership, profits (losses) and risks of the business are shared.

A partnership is desirable if two or more people are needed to handle the amount of work, or if added finance, skills or assets are provided. A formal agreement should be drawn up between the parties, and the partnership legislation of each State applies to the structure. Like a sole trader, a partnership is not a separate legal entity from the owners (partners), so that similar liabilities apply.

It is essential that your partner be compatible with you. There have been many cases where this was not so, and the business has collapsed as a result. Remember that your partner is required to help run the business and not just to be a friend or companion.

### Company

Some home businesses have a company structure. Although this structure has definite advantages - particularly that of limited liability - it is complex, more expensive than sole traders or partnerships, and time consuming to commence and maintain.

There are also other structures available, such as the trust or cooperative, which tend to be used in special circumstances.

Each form of legal structure has its specific taxation implications. These need to be considered with other factors but should not override your decision. This is an area for which you should seek expert accountancy advice.

## Is It Legal For You To Operate At Home ?

Before commencing it is essential to ensure that you are operating within the law. You will need to check Local Government requirements, State and Federal Government licensing requirements and regulations, and other legislation.

You should visit your local council to check:

- whether your operation is permitted in the particular council zone;
- what permits are needed if alterations or additions are to be made to your premises;
- the number of employees you can have under local council regulations;
- to what extent you can use signs outside your home, and
- what requirements there are in relation to matters such as parking or extra power sources.

Then visit the State Government licence centre; you may need to get one or more licences and/or permits before you can trade.

Here are examples of some of the businesses for which licences/permits are needed:

food premises  
importing  
plumber  
electrician

building  
motor mechanic  
hairdresser  
second-hand dealer

Even if you do not need to be licensed or registered you may still be subject to some form of legislative control or regulation. Visit your State Government information centre and browse through the leaflets and brochures regarding your business and the law.

If you are to have employees, you will need to check with the appropriate State department regarding matters such as industrial awards and employment conditions, health and safety, and workers compensation. There are strict Food and Health Acts in all states, which apply should you plan to cook at home for resale. There are also laws affecting trading with the public (dealing with trading hours), credit legislation, consumer laws, and the Trade Practices Act.

Although the legal requirements of being in business have become numerous and often complex, the onus is on you to carry them out. Depending on the nature of your business you could initially enquire at a trade, business or professional association, or the Chamber of Commerce, and then be kept up to date by taking out a membership in the association. The State Government Business Centre and your accountant and legal adviser can also advise you.

## What Insurance Do You Need ?

What a pity if a fire, accident or burglary nullified all your plans, efforts and investment! You need to insure against the things that you cannot really afford to lose. You need to be able to replace the items foregone.

As a first step check your household insurance cover. To what extent does it cover your intended business operations ? There may be restrictions that you may need to remove. Your house contents policy may not have a fusion clause, which means that damage caused by the failure of the electric motor of, say, your freezer will not be covered.

Obtain the services of a registered insurance broker and ask for quotations from at least three reputable insurance offices. Complete the following checklist of your insurance requirements and then discuss these with a broker:

### CHECKLIST: INSURANCE REQUIREMENTS

Do you require:

	Yes	No
1. Life insurance to compensate your survivors in the event of your death		
2. Personal accident and sickness cover		
3. Workers compensation cover for staff		
4. Loss of profits insurance against loss of business income due to catastrophes such as fires		
5. Public liability insurance against claims for injury, death or damage by persons other than family members or employees		
6. Cover of property, assets and equipment against fire, burglary and larceny		
7. Personal liability insurance against claims for damage by clients to whom you have sold something or provided paid advice		
8. Other		

## **Should You Purchase A Franchise ?**

Franchising has become a popular technique in Australia. A franchisor (organisation) sells the right to a franchisee (independent owner) to sell a product or service subject to the unique system and controls developed by the franchisor. In many cases the business can operate at or from home - examples include lawn-mowing services, carpet cleaning, plant rentals, home catering, and bookkeeping.

There are a number of advantages of purchasing a franchised business rather than starting from scratch:

- It should be easier to start up because the business idea should have been tested elsewhere and many problems ironed out.
- The experience and continuing support of the franchisor may be available in marketing, management and financing.
- An initial training period should be provided.
- Promotion should be easier because of the image already developed for the product/service and because the franchisor can provide major support.
- There are financial institutions that specialise in providing finance to purchase franchises.

The disadvantages of franchising should be considered:

- Because of the above advantages a large initial capital outlay will be needed. Smaller franchises require an outlay of about \$20 000, but further payments may be needed (for example, a percentage of turnover, and advertising levies).
- A long-term contract is usually envisaged of at least five years.
- The franchisor could fail.
- There is less independence than in entirely running your own business. Because you are subject to the terms and conditions of the franchise agreement you are part way between being an employee and an independent enterprise owner.
- Because of the specific amount of the initial outlay and because a minimum size of market is required, the franchise method may not be suitable if you wish to commence in a very small way or on a part-time or casual basis. The independent home business can allow you to 'try the water before taking the full plunge', but the franchise usually requires more upfront legal and financial commitment.

If you consider a franchise, discuss the pros and cons with some satisfied franchisees and also with some who have not been satisfied. The franchisor should be willing to provide you with the names of both types of people.

It is also essential to obtain professional advice in evaluating a franchise to suit your needs, particularly because the franchise agreement is a legally binding contract drawn up by the franchisor. There are consultants in each State who specialise in franchising.

## Overview

Your planning will need to take account of specific equipment needs and staffing. You will need to spend many hours in the business, but just how you manage your time will make all the difference.

A descriptive and imaginative business name could add to your business image. You may decide to commence simply as a sole trader, but the pros and cons of the partnership and company structures should be considered.

You need to cover all the legal requirements for your type of business, and then you need to remain aware of any changes in the law. Because adequate insurance is a must, you should check with an insurance broker as to the risks that you need to cover.

Franchising is growing in Australia for proprietors who are willing to forego some independence. It is suggested that you stay with your own business idea if you wish to remain in full control. Otherwise, the advantages and disadvantages of franchising should be evaluated using professional advice.

## Case Studies

### Superior Plant Hire

Mary made a list of her equipment needs, which included a watering trolley, a trailer for delivering plants, and two delivery trolleys. For her office in the spare room of the house she needed an electric typewriter, a filing cabinet and a cordless telephone. At a later date she hoped to purchase a personal computer with a program suitable for plant hire.

As a mother, wife and business owner Mary knew that one of her greatest challenges was time management. She planned a time schedule that commenced at 5 am, with repotting of plants and

then breakfast before getting the children off to school. At peak times she used a taxi service for the delivery of plants, and her older children and husband helped with the lifting of plants. She also had a horticulturist friend who was able to assist when needed.

“Superior Plant Hire” was the name decided on for the business, and this was registered. Mary believed that a business name on her stationery and in advertisements would add to her business image. After discussions with her accountant she chose the sole trader form of ownership (particularly as her husband did not wish to be an active partner of the business) and took out some extra insurance cover.

After Mary contacted her local council, the planning officer called at her premises. An all-clear was given for the business to commence. One of the concerns of the officer was to minimise parking problems, but Mary made it clear that she did not wish to encourage customers to call at her home.

### **L. & R. Leaver**

The Leavers needed to purchase a second-hand printing plant, a guillotine and a vacuum cleaner. For the office portion of their converted garage they needed a computer, a photocopier and an answering telephone service. All equipment was fully insured. The local council inspected and approved their premises while the printing plant was in operation; any noise problem was eliminated by the sound-proofing of the garage. It was decided that couriers would be used for the delivery of finished jobs. Not only was this relatively inexpensive, but Len's time was better spent with the printing processes than on the road.

The Leavers planned to work as a team, and the actual hours of business would vary with demand. For example, January tended to be a quiet month. They agreed upon the sharing of their responsibilities, with Len as 'the printer' and Ruth as 'the administrative manager'. For the first six months of the business Len was to be involved full-time to ensure a good start. Then he planned to resume his normal employment but work part-time in the business.

A business goal was to fully update their equipment within four years, when Len would become full-time in the business if all progressed well. Because of their plans to be a team, and also on their accountant's advice, the Leavers formed a partnership. A partnership agreement provided by their accountant was signed. They called the business "L. & R. Leaver" but did not register it.

## **5: What Financial Management Will Be Needed ?**

### **Key points**

**What are your taxation requirements ? What records should you keep ? Is a computer needed ? What funds will be needed to start ? What will be the cash flows ? Will the business make a profit ? What will the business be worth ?**

In starting your business you need to plan to be a good manager in a generalist sense. But you will also need to adequately manage the financial aspects of the business. These will include handling taxation requirements, record keeping, computing, obtaining finance, managing cash flows and preparing financial statements.

### **What are your taxation requirements ?**

Income tax has always been the major business tax in Australia and has a big impact upon the profits and cash-flow of businesses. There can be different rates of taxation and different taxation requirements according to whether a business is a sole trader, partnership or company. In your taxation return you need to estimate your taxable income.

The amount of tax you pay can be minimised by your legitimate business expenses. For example, should you use part of your home solely for business purposes you may be able to claim a

portion of your house mortgage and maintenance costs as business expenses. Expenditure (such as the purchase of tools) on what was previously a hobby can become a taxation deduction if it is incurred to earn income in your home business. Note, however, that cash drawings from the business for personal use cannot be treated as business expenses.

From July 1 2000 the Goods and Services Tax (GST) system started in Australia requiring 10% tax to be paid on most goods and services with the exception of most food items.

All businesses, including those at or from home, need to register for an Australian Business Number (ABN). If annual turnover exceeds \$50,000 businesses need to also register for the GST. Registration for both an ABN and the GST can be completed on the internet ([business.gov.au](http://business.gov.au)).

Businesses with turnover below \$50,000 can also register for the GST system, but if they do not do so, they cannot claim tax credits for GST they have paid on goods and services purchased for the business.

Once registered for the GST, a business pays GST on the things it buys (but gets this back as input credits) and includes in prices paid by customers the respective GST portion. The difference between the amounts of GST collected by a business and the amount paid by that business (for its inputs) is paid regularly to the Australian Taxation Office (ATO).

GST registered businesses need to submit to the ATO a Business Activity Statement (BAS) each month or quarter. The BAS is used to calculate the amount of GST payments owed to the ATO or owed by the ATO to the business.

The same statement is also used to report obligations and entitlements relating to 'Pay-As-You-Go' (PAYG). These include instalments and withholdings due to the ATO:

PAYG - Instalments include:

- Instalments of your income tax based on gross business sales less business expenses.
- Due quarterly or annually depending on their size.

PAYG - Withholdings include:

- Deductions from employee wages and due to the ATO.
- Due weekly, monthly or quarterly depending on their size.

You can obtain a lot of information regarding the ABN, GST and the BAS on the internet:

- ATO GST Start-Up Assistance, [gststartup.gov.au/](http://gststartup.gov.au)
- ATO [taxreform.ato.gov.au/](http://taxreform.ato.gov.au)
- Pricing [acc.gov.au/](http://acc.gov.au)

It is clear that taxation is complex and must figure strongly in your planning. Here are some musts.

- Keep records that adequately substantiate and explain all your business transactions. It is important to keep complete and accurate records, and the Taxation Office can demand to inspect these.
- In planning your cash-flows (see later), take into account the amount of all your taxation payments and their timing.
- You should always be able to ascertain the profits and cash derived from your business **after tax**.
- Obtain the services of an accountant. He or she can minimise your taxation liabilities by recommending an adequate business structure, giving advice on the records to be kept and how to claim for legitimate personal and business deductions.

## What Records Should You Keep ?

Every business keeps some records, such as bank statements and receipts, and yet one of the most common problems found in many small businesses is a lack of adequate records. The reason is that records must be kept in a systematic way, and many of them should form the basis of bookkeeping - the systematic, regular recording of the financial transactions of a business. A system is required, no matter how simple, to make the raw data usable. Your recording system should enable you to ascertain:

- whether you are keeping your private and business financial matters separate;
- your cash position;
- how well you are achieving your cash budget;
- whether your debtors are paying promptly;
- whether you are paying your accounts promptly;
- your levels of stocks or materials;
- your profit or loss for a period, and
- whether there are financial problems requiring attention.

In other words, the prime role of a recording system for a small business is to allow you to control the financial aspects of the business. This includes the collecting of information so that you can adequately price your product or service, and also the details required by the ATO to substantiate your returns for income tax and the GST.

You will need the services of an accountant to commence the system for your business, but with some training in bookkeeping (from many of the short courses available) you should be able to operate the system yourself. You should retain the accountant as your subsequent support.

Depending on the nature and size of your enterprise, you may initially require:

- a cheque account (separate from your private bank account);
- a columnar cash receipts and payments book, and a procedure to reconcile this with your cheque account;
- a petty cash book to record small cash items, and
- separate files containing information relating to such items as receipts, invoices, debtors, creditors, and insurance.

If you are to manufacture a product, a simple system for recording your manufacturing costs and overheads will be important. You may be advised to check your cashbook to your cash budget at least each month and to prepare a statement of income and expenditure each quarter. Your system should be able to be expanded, and perhaps computerised, as the business grows.

It cannot be overemphasised how important it is that you keep track of the money matters of your business. This is just as vital as being technically or professionally competent in your other operations. Original written records that you understand and can use are essential for even a mini-business.

## Is A Computer Needed ?

If you already own a personal computer it is probable that there would be an application for it in your business. However, it is another question as to whether you should outlay funds to buy a computer and accompanying software for the business, especially if you are not proficient with computers. You would be more likely to consider this if your business is office or commercially based. For instance, you can quickly and easily produce letters and other printed documents using a word processing package on the computer. Your business could involve desktop publishing, and a computer would obviously be needed for this. Your business may require access to statistics and data such as share prices or exchange rates; such information can be obtained on disks, or your computer can be linked to data sources via the telephone line.

In considering whether you should purchase a computer you would need to consider:

- the initial cost;
- the time and effort needed to become proficient with its usage;
- whether there is continuing support from the supplier, and
- whether the benefits to your business will more than outweigh the costs.

Advice can be sought from your accountant and your State Government Business Centre.

## What Funds Will Be Needed To Start ?

Having investigated the main requirements for your business, you'll now need to estimate how much it will cost to commence operations. The amount may be minimal or quite substantial, depending on the type of enterprise and how large it is to be at the start.

Use the Self-Review to do an initial estimate of your starting requirements. 'Fixed Assets' and 'Promotion' expenses can be regarded as once only starting costs. 'Inventory' and 'Other Requirements' could be estimated for the first three months, in which you will probably receive little income. Should you require inventory, its amount should be estimated carefully; you need sufficient to satisfy demand, but a large amount increases the need for storage, the danger of obsolescence or damage, and the need for insurance. If suppliers are prepared to provide some or all of the inventory on credit, this will reduce your initial cash requirements.

### SELF-REVIEW: INITIAL FUNDS

<u>Fixed assets</u>	\$
Additional building(s)	
Renovations, decorating	
Furniture	
Tools and machinery	
Lighting	
Shelving	
Business telephone	
Other	X
<u>Inventory</u>	
Raw materials	
Finished goods	X

<u>Promotion</u>	
Market research	
Advertising	
Permits, registrations, licences	
Registration of business name	
Accounting and legal fees	X
<u>Other requirements</u>	X
<u>Total funds required</u>	XXXX

How does the total funds requirement compare with the funds that you have available ? You should be aware that it could be a number of years before you start to recoup your initial outlay. Your sales, or fees receivable, first need to grow to the stage of covering current expenditure and your personal income. It is likely that there may be little contribution to your own income in the first year. Can you afford this ? At the worst, could you afford to lose your start-up funds ?

If your funds are less than the amount required, you should consider sizing down the start-up or delaying operations until you can accumulate more funds. You may be tempted to borrow the balance, but this is not recommended unless:

- your enterprise is well planned and documented;
- your projections show that strong profits can be made;
- you can provide security for a loan, and
- your accountant's advice has been sought.

Don't forget that loan interest and repayments would need to come from the business, but at this stage you can only predict the sales or fees to be received; you cannot guarantee these.

## What Will Be The Cash Flows ?

Having estimated your opening funds, you need to forecast the business cash flows - the cash receipts and payments in each of the first twelve months within a cash budget. The budget can be updated monthly so that you will have a rolling twelve-month cash forecast. This is essential in order to:

- estimate the cash surplus (receipts exceed payments) or cash deficit (payments exceed receipts) for each month; as suggested earlier, you could expect a deficit for much of the first year and therefore should have allowed for this in your estimate of the starting funds needed;
- find out when the business can afford to pay you an income, and then provide cash for growth, and
- help you to control your receipts and payments by comparing the actuals to the budget.

It is not easy to forecast twelve months ahead, especially for a new business, but it is important to do this rather than to 'fly blind'. As you gain experience you will become more accurate. At the beginning it is better to err on the conservative (pessimistic) side.

In the following cash budget the start-up costs are, as discussed earlier, separated from ongoing items. The opening cash balance is assumed to include the estimated funds needed to start. The 'Budget' columns would be completed for each of the first twelve months before the business starts. The 'Actual' columns would be completed at the end of each month from the records of the business. The differences between actuals and budget items (called 'variances') provide a basis for controlling the items.

**SAMPLE CASH BUDGET FOR A HOME BUSINESS FOR THE YEAR ENDING .....**

	Month 1		Month 2	
	Budget	Actual	Budget	Actual
<u>Cash receipts</u>				
Cash sales and fees				
Credit sales <b>(1)</b>				
<i>Total cash receipts <b>(A)</b></i>				
<u>Cash payments</u>				
Fixed assets: start				
ongoing				
Inventory: <b>(2)</b> start				
ongoing				
Promotion: start				
ongoing				
Other: start				
Casual help				
Office supplies				
Insurance <b>(3)</b>				
Bank charges <b>(4)</b>				
Postage				
Telephone				
Vehicle expenses				
Drawings <b>(5)</b>				
<i>Total cash payments <b>(B)</b></i>				
<i>Cash increase (decrease)</i>				
<i>in month <b>(A less B)</b></i>				
<i>Add Opening Cash <b>(6)</b></i>				
<i>Leaves Cash surplus (deficit) at end of month <b>(7)</b></i>				

1. If credit is given to clients, estimate when payment will be received.
2. If you receive credit for your purchases of inventory, estimate when you will pay.
3. Some items, although paid in one month, cover a longer period, e.g. annual insurance.
4. Bank charges will appear on your bank statement.
5. This may be nil for quite a while.
6. For the first month this includes your opening funds requirement, as estimated earlier. To be safe you may add to this latter figure a buffer amount.

7. The actual surplus or deficit is a key figure to be watched at the end of each month. The trend is important; a continual or increasing deficit cannot be allowed to continue. If the balance fluctuates seasonally or for other predictable reasons, it may be possible to finance a deficit with a bank overdraft or bill finance. Discuss this with your accountant.

## **Will The Business Make A Profit ?**

The accounting or book profit (or loss) of your business is not the same as your cash surplus (deficit) for a specific period. This is because profit is measured by matching the sales (or services) made in a period against the expenditure incurred in the same period in earning the sales. Cash transactions of the same period do not necessarily cover the matching process.

For example:

- sales may be made in one month but the cash may be received next month or later;
- goods purchased and sold to customers in one month may not be paid for by the business until next month or later;
- cash may never be received for some credit sales - the sale (debtor) may have to be written off as bad, well after the month of sale, and
- equipment is used up in producing goods for sale, and therefore a portion of its cost, called 'depreciation', should be matched against the sales of the goods each period.

An income and expenditure statement (see the sample below) can be prepared to summarise items of business income and expenditure and arrive at a profit or loss for a given period.

For taxation purposes this needs to be completed by businesses at the end of each financial year. As mentioned earlier, it is important to keep adequate records during the year. One reason is to provide the information for the statement.

The statement can be prepared at any time, and it is a wise idea to do so at least quarterly to find out whether your business is making a profit.

**SAMPLE INCOME AND EXPENDITURE STATEMENT FOR A HOME BUSINESS FOR THE YEAR ENDING 30 JUNE .....**

	\$	\$
<u>Income</u>		
Cash sales		
Credit sales	X	
Less Cost of sales		X
<b>GROSS PROFIT</b>		X
<u>Less Expenditure</u>		
Casual help		
Bad debts written off		
Insurance		
Telephone		
Office supplies		
Bank charges		
Postage		
Vehicle expenses		
Depreciation of vehicle		
Miscellaneous expenses		X
<b>NET PROFIT BEFORE TAX</b>		XXX

## **What Will The Business Be Worth ?**

The only way to ascertain the actual value of any business is to sell it ! At any other time the financial position of your business can be approximated by estimating the value of the assets (what it owns) and deducting the value of liabilities (what it owes). The difference represents your equity or investment in the business. The equity increases from the profits of the business.

It is a good idea to prepare a listing of the assets, liabilities and equity in the form of a balance sheet at the end of the financial year, when the income and expenditure statement is prepared.

Also, should you need to apply for funds to a financial institution, these two statements will be required as well as your cash budget. See the following sample balance sheet.

SAMPLE BALANCE SHEET OF A HOME BUSINESS AS AT .....

	\$
<u>Assets</u>	
Fixtures and fittings	
Equipment	
Vehicle	
Inventory	
Trade debtors	
Cash at bank	X
<u>Less Liabilities</u>	
Trade creditors	
Bank overdraft	
Taxation owed	X
<b>OWNER'S EQUITY</b>	<b>XX</b>

As stated earlier, an income and expenditure statement indicating a profit (loss) for a period can be prepared regularly from the records of a business. If a balance sheet is prepared from the same records, the same profit (loss) will appear in the balance sheet for the same period. This can be one of the advantages of maintaining a bookkeeping system.

We have seen now that there are three main financial statements for a small business: the cash budget, the income and expenditure statement and the balance sheet. The most important for the new home business is the cash budget because without cash you will not survive. By undertaking a short bookkeeping course you could learn how to complete these three statements. But it is important to seek your accountant's advice before preparing these for your own business.

One advantage of having a business at home is that your record keeping and financial statements should be quite simple.

## Overview

Management incompetence is the biggest cause of business failure, and poor financial management is a large portion of such incompetence. You may be good at your particular skill, profession or trade and be an adequate manager in a generalist sense. However, you need to plan to manage the financial aspects of the business. These include:

- attending to taxation requirements;
- maintaining useful records, including a bookkeeping system;
- deciding whether a computer is needed;
- estimating the amount of start-up funds;
- forecasting cash flows for each of the first twelve months, and
- preparing an income and expenditure statement and a balance sheet.

If the material of this Section is particularly new and strange to you then a short course in the financial management of a small business (including bookkeeping) is recommended. You will also need to depend on the advice and support of your accountant.

## Case Studies

### Superior Plant Hire

Mary attended a twelve-week course in small business management and a shorter course in bookkeeping. This gave her a good introduction to the financial management needed for her business. In addition she had several consultations with her accountant from the beginning of her planning.

She was aware of her taxation commitments as a sole trader and commenced a simple bookkeeping system, which included necessary taxation information. Mary found that maintaining the system was quite boring, and her husband has agreed to take this over.

With her accountant Mary completed a cash budget for twelve months and also a projected income and expenditure statement. She found that her fixed costs were not large but that it was difficult to forecast her receipts. On listing and totalling the initial requirements for the business Mary found that \$10 000 was needed. She had only \$2000 in savings and obtained the balance as a bank loan. The bank required security on her home, her car and a guarantee from her grandmother. Mary was quite aware of the riskiness of this loan, as outlined by both her accountant and the bank manager, but she was prepared to lose the total amount at the very worst, and to return to paid employment (on a salary of \$38 000) if necessary.

### L. & R. Leaver

Both Len and Ruth attended an evening workshop for small business intenders, conducted by the State Government Business Centre, and this included the rudiments of financial management. Also, Ruth had a good working knowledge of bookkeeping from her previous employment.

It was agreed that their accountant would prepare their taxation returns but that Ruth would complete the bookkeeping records on a regular basis.

The Leavers had saved \$10 000, and this was estimated as the initial funds requirement. A substantial part of this was needed as the deposit on the purchase of printing plant. The balance was to be paid in instalments to the vendor. As Len said, 'Buying the plant was a gamble. About \$100 a week was required on top of normal family and business running expenses, when we were trying to break into the market.'

Len completed a cash budget for the first twelve months and included provision not only for the instalments but also to replace the printing plant in four years' time. He and Ruth were optimistic that they would meet the budget because of Len's experience and contacts in the printing industry, a high demand for their specialised work, and minimal overheads because their operations were based at home.

## 6: Where Can You Get Help ?

### Key points

**Informal assistance. Professional assistance. Associations and groups. Government and tertiary institutions. Networking.**

In planning the commencement of your business you may need outside information, advice and guidance. Many of the sources of such assistance will remain important for the continuing operation of your business. In this Section your most likely sources of assistance are discussed.

## **Informal Assistance**

Some assistance can be obtained for your business easily and cheaply. Firstly, check with your family and friends, particularly if they have business experience. Secondly, make a point of seeking out other small business operators, especially if their product or service is similar to yours.

Depending on your type of business, suppliers can provide information and assistance such as product information, technical advice, marketing and advertising information, and direct aids such as price lists and brochures.

Once the business is started ask your customers to review your output and make suggestions for improvements.

Make the acquaintance of your local librarian. Library business resources include books, magazines and videos on business management, marketing and customer relations, manufacturing technologies, new products and industry trends. Libraries also hold community directories and databases that could be used to compile local market profiles.

## **Professional Assistance**

### **Your accountant**

A good accountant can be the most important of your advisers. You need a public accountant who is in the practice of providing a full range of services to small businesses, and not just taxation or bookkeeping advice. Obtain a recommendation for a suitable person from your acquaintances. Otherwise telephone the state branch of the Institute of Chartered Accountants (ICA) or CPA Australia stating your requirements and asking for a schedule of recognised fees.

Your accountant should be engaged before you begin, and should provide advice regarding:

- the legal structure for your business;
- taxation requirements;
- the setting of prices;
- general records and bookkeeping;
- the preparation of cash budgets, income and expenditure statements and balance sheets, and
- the preparation of your business plan (see Section 2.7).

Negotiate a fee based upon hours of advice provided. Ultimately endeavour to do as much of your own financial management as possible but with your accountant acting as advisor.

### **Your Bank**

You will need to open a separate business account at your bank and should use this as an opportunity to arrange an appointment with the local bank manager. Put him or her in the picture about your business - do not wait until you need a loan. Bank managers usually have a good knowledge of local business conditions and can offer useful suggestions to business owners.

## **Your Solicitor**

The services of a solicitor maybe needed if legal documents have to be completed for a partnership or company structure. Your accountant can advise whether a solicitor is needed and should be able to recommend one to you.

## **Insurance Broker**

In Section 4 it was suggested that you contact an insurance broker, and a checklist was provided to help you ascertain your insurance requirements.

## **Associations and Groups**

Many trade associations have been established in Australia to represent and promote the interests of their members, including small business owners. Examples are: Milk Vendors Association, Newsagency Council, Federation of Travel Agents, Retail Traders Association, and Electrical Contractors Association. Such bodies provide information and assistance relevant to the particular industry, they hold regular meetings, and they issue technical information via letters or bulletins.

Chambers of Commerce exist in most towns and deal with not only local matters of interest to business owners but also matters of concern to the community. Because the home enterprise is usually very dependant on its local environment you should consider joining your local chamber and participating in its activities.

## **Government and Tertiary Institutions**

Your local council will be the nearest government instrumentality to your business. It is an essential part of your planning to ascertain council requirements for a business at home, but local government is interested in local business and can provide information about transport services, population trends and development plans. Also specific services may be available for small businesses from some councils.

In each State and in some provincial centres there are State Government Business Centres. Because they have been established specifically to assist in the commencement and development of small and medium size enterprises they are an essential resource for the business owner. They provide:

- skilled advisers to help you to tackle almost any kind of problem;
- a wide range of booklets, reference materials and short courses for training and education;
- telephone advice and information;
- computing advice, and
- consulting at a reasonable cost.

One of the most useful services of the Centres is to provide leads to State and Federal Government departments.

A number of educational institutions around Australia provide short courses for small business intenders and owners. For example, they are available in most Vocational Education colleges in each State. Many of the courses are offered at weekends or in the evenings, and a number of correspondence courses are available. Your State Business Centres will have a list of such

courses. A Basic Small Business Management course should be essential to any person new to the task of planning and starting a small business.

## Networking

One of the downsides of operating a business from home is the problem of isolation. The usual sources of social contact, support, advice and friendship available to many people in the workplace can be missing. This problem can be reduced by developing a networking system, which involves making contact with new people so that relationships can be developed.

We all have personal networks of people with whom we have direct relations. In the case of a small business owner these could include partners, suppliers, customers, bankers, creditors, distributors and family members. Some of these contacts will be of a casual nature, but others will involve strong ties, people whom we can count on for mutual benefits. A networking system is especially aimed at the latter type of relationship. It can provide added support and resources at little cost.

Such relationships are strengthened if they involve overlapping ties. For instance, an accountant should be part of your network and may be well known to your bank manager, who is also part of your network.

Networking does not just happen, except in the casual sense mentioned above. It requires planning and effort. Here are six tips that can work for you (from Paul and Sarah Edwards, *Working from Home* (Jeremy P. Tarcher Inc., Los Angeles, 1985)).

1. Step into the role of host. Approach life as 'host' and not as a 'guest'. Hosts do not want to be introduced; they help people feel at ease, and they ensure that everyone knows who everyone else is.
2. Tell everyone you meet who you are, what you do and what you want to do. Treat everyone as a prospective client, friend or colleague.
3. Make yourself and what you are seeking clear. Let your contact know whether you share common interests and whether you can help each other.
4. Be interested in people. Listen to what they have to say. Ask the right questions about their lives and their work.
5. Offer to give people the very thing you want. If you are requiring childcare, offer to provide this for them.
6. Plan a follow-up meeting with people you come in contact with.

When you discover someone who appears to share some of your interests, exchange business cards. Do not wait for them to call you. Contact them and propose that you meet again to find out more about each other.

If you plan to work at home it is necessary to plan to stay in touch with people. This can be done so that you develop a network that acts as a resource for you as a person and for your business.

## Overview

Now complete the following Self-Review. Which sources of assistance are available to you? The remainder need to be developed, depending on your type of business.

**SELF - REVIEW**

<i>Source of assistance</i>	<i>Available</i>	<i>Not available</i>
Family		
Friends		
Business owners		
Suppliers		
Customers		
Local librarian		
Accountant		
Bank manager		
Solicitor		
Insurance broker		
Trade association		
Chamber of Commerce		
Local council		
Business Centre		
Educational institutions		
Network prospects		

**Case Studies****Superior Plant Hire**

Mary has received strong support and assistance from her husband, even though his actual role in the business is limited to doing the bookkeeping. Her “teacher” (the local nursery owner), her accountant and her horticulturist friend provide regular assistance. The courses in small business management and bookkeeping have not only helped in starting the business but also pointed her to useful reading material. She has joined the Nursery and Landscaping Industry Association SA Inc. and receives regular helpful information.

According to Mary, 'A big lesson I learned early was the need for a personal network. I use the network to source plants and to get jobs.'

**L. & R. Leaver**

Len and Ruth form a solid team and support each other in their business. Their accountant has been involved with them since inception and is a valuable source of assistance.

They have joined the Printing & Allied Trades Employers Federation of Australia, which keeps them up to date with the state of the printing industry and technical information. Len also has a useful contact who is an official of the Printing & Kindred Industries Union.

Len has a strong personal network. As he says, 'Once you are in the trade, and people know you, it is easy. I have been in the trade for many years, so I know many people in all facets of supply and demand. In recent years I have actually gone out of my way to do this because I knew that this would help me if I decided to go it alone.'

## 7: Preparing Your Business Plan.

### Key points

**What is a business plan ? What are the advantages of a business plan ? What should a business plan cover ? Your business plan. Time for action.**

Having studied Sections 1 - 6 you now need to bring all these planning requirements together into a cohesive written business plan.

### What Is A Business Plan ?

Good planning can make all the difference to activities you undertake. For example, if you decide to take your family on a driving holiday around Australia you need to determine beforehand all the things that need to be done to achieve your goal. Such planning has two components:

- a desired future outcome, and
- a series of steps to achieve the outcome.

The same components are required to plan a new business. You need to determine your future objectives and specify the action needed to ensure these.

A business plan is a document that:

- explains your business idea:
- states your objectives, and
- states the methods and decisions that you intend to follow to achieve the objectives.

For a home enterprise it should be sufficient to initially prepare a business plan covering the first twelve months.

### What Are The Advantages Of A Business Plan ?

There are important advantages in preparing a business plan even for the smallest venture:

1. Research indicates that the business owner who plans is more likely to survive.
2. A plan provides you with an overall view of the business and how various aspects of it need to be coordinated.
3. Its preparation will force you to evaluate what you intend to do and when. You may minimise errors and locate weaknesses. The need for assistance should be highlighted.
4. It is a reference document or blueprint against which progress can be measured.
5. It can be shown to interested parties such as suppliers, customers, staff and family members to give them a precis of the business.
6. Should outside finance be required, a copy of the business plan can be given to the lender with a detailed request for finance.

The business plan is meant to be practical and should therefore be kept as simple and as clear as possible. A highly complex and legalistic document is not necessary. No more than 10-12 A4 pages should be sufficient for your first plan.

It is important that the plan be yours. By all means, seek advice, especially on some of the aspects we have already discussed, such as pricing. After the first rough draft has been prepared, ask for comments from your family, friends, business people and your accountant. The final plan should be logically consistent, and you should be able to answer all questions raised by the readers. It is most unlikely that this will occur with the first draft, but make changes until you feel happy with the result.

Your initial business plan which gets you started should be only the beginning of your ongoing planning for the business. At least twelve months after opening for business and at least each twelve months thereafter, your plan should be reviewed. This will also involve the recasting of your cash budget for the subsequent twelve months. Such a procedure outlines a definite direction for your business and will assist you in preparing for any major changes. In some years only minor changes may be needed, but at other periods drastic changes may be called for.

## **What Should A Business Plan Cover ?**

Your initial business plan, and subsequent ongoing plans, should cover the matters discussed in Sections 1 - 6. These can be usefully summarised in four sections: 'Future directions', 'Marketing', 'Organisation' and 'Financial Management'.

### **1. Future directions**

We have discussed in Sections 1 and 2 the need for you to clarify your personal and business objectives and your resources. These will determine the direction of your business from the outset, and need to be included in your business plan.

After twelve months and subsequently, your objectives and resources may change, and you may need to change the direction and growth of your business. For example, in year 1 you may plan to remain in paid employment and to work part-time in your business. From year 2 you may be able to operate fulltime because you have saved sufficient funds and have gained sufficient customers. The business plans for each year should contain details of your intentions.

The following three aspects are then required to give effect to your planned direction. They comprise the basis of your tactics or operations needed to achieve your desired direction and/or growth.

### **2. Marketing**

In Section 3 the need for marketing was stressed. Because customers are absolutely vital to your business, your market needs to be carefully planned. A section of your plan should explain your business idea, who your customers are and how you plan to acquire them.

### **3. Organisation**

In Sections 4 and 6 we discussed what needs to be done and who could help to start the business. A small business operator needs to be able to manage the organisation of the business at inception and afterwards - there is no one else to do it!

Details of organisational matters, such as the legal structure of the business, and its management and staffing, need to be shown in the business plan.

### **4. Financial management**

In Section 5 we discussed the necessity to manage the financial aspects of the business, including obtaining finance, taxation requirements, record keeping and the cash budget. Details of these requirements need to be included in the business plan.

## Your Business Plan

There are various ways to set out your business plan. Choose one that suits your particular business. The following outline contains the major matters in eight parts and could be the one you start with. You could number the parts for easy reference.

### 1. THE BUSINESS

#### 1.1 Name of the business

- This may be a registered business name or your own as the owner.

#### 1.2 The owners

- Show your full name and provide details of your business background, education, training and skills. If you have one or more partners (or company shareholders), show their details also.

#### 1.3 Address

- This will be your home location.

#### 1.4 Legal structure

- State whether the business is a sole trader, partnership or company.

#### 1.5 Business operation

- Provide a paragraph outlining the nature of your business activities.

### 2. BUSINESS OBJECTIVES

- In Section 1 you would have listed the specific objectives that you had in mind for your business; these needed to be in line with your personal objectives in life. In this section of the plan you need to quantify the business objectives that you wish to achieve within the first twelve months. Set these as realistically as possible.
- Examples could include: to break even in terms of cash by the end of twelve months; to break even in nine months and contribute \$200 per month for drawings after this; to obtain twenty regular customers, five in four months and fifteen more by the end of the year. (If in doubt, adopt a cautious approach.)
- It may not be easy to establish such concrete objectives, but the attempt will give you a good insight into your business. Remember that you can review the plan, including this section, as you see how things are progressing.

### 3. MARKET

- The market planning suggested in Section 3 forms the basis for this part.

### 3.1 Business idea

- Describe in some detail the product or service you are to provide. Stress any differentiation of your output.

### 3.2 Customers

- Identify and quantify your total potential market; your target market for the first twelve months.
- Also indicate the costs involved in finding this out.

### 3.3 Prices

- State the range of prices or fees you will charge.
- Explain the basis for these: for example, to cover costs; to compete with existing products; as set by the supplier or professional association.

### 3.4 Promotion

- What will you do to gain sales?
- Detail the costs involved.

## 4. PRODUCTION OR PROCUREMENT

- Unless you are to provide a professional service (such as designing or consulting) give details of your production process and its requirements, or how you will acquire merchandise for resale and from whom.

## 5. FACILITIES

### 5.1 Business premises

- Describe the accommodation at your home that is to be used; for example, office in spare room, lathe in garage.
- If alterations are to be made, explain these and list the costs.

### 5.2 Equipment

- Describe the equipment needed and its cost to purchase or lease if not already owned; for example, delivery van, computer, facsimile machine.

## 6. PEOPLE AND ORGANISATION

- This section relates to your personnel planning and the organisation of the running of the business. For a mini-business with yourself as the sole operator this will be a simple section.
- Any costs involved in hiring staff, or obtaining training and assistance should be itemised.

### 6.1 Staff

- Provide names and responsibilities.

## 6.2 Management

- Who will be in charge to give oversight?

## 6.3 Training and assistance

- You may need to undertake one or more short courses (for example, time management, bookkeeping) and pay for the assistance of an accountant or solicitor.

## 7.FINANCIAL MANAGEMENT

- This section should be near the end of your plan because much of the information needed here depends upon your planning in the previous sections. In preparing the first draft for this section you may need to go back and alter the plan in the earlier sections.

### 7.1 Start-up costs

- Itemise the costs of fixed assets, inventory, promotion and other expenses outlined in Section 5.

### 7.2 Funding

- Indicate the amount of funds you have accumulated for the enterprise.
- If you feel that a loan is warranted explain this and indicate the likely source and cost.

### 7.3 Records

- What business records will be kept, including a bookkeeping system? How will these be maintained and by whom?
- If assistance will be needed, what costs will be necessary?

### 7.4 Insurance

- List the items/persons you will cover for insurance, and indicate the costs.

### 7.5 Projected cash-flows

- Having predicted your cash receipts and payments for the next twelve months, including start-up costs, you can use this section for your cash budget (see Section 5). To the extent that your objectives (outlined above) can be measured in cash, highlight whether these will be met according to your budget.

### 7.6 Projected profit and value

- This is a section for which an accountant's advice may be needed, because ideally your business plan should include an income and expenditure statement and projected profit for the next twelve months, and a balance sheet as at the end of the period.

## 8.ATTACHMENTS

- It is important to show your workings for the plan, and this can be done as an attachment. You should include all the information and figures a reader would need in order to understand and check your estimates and forecasts.
- These could include quotations, market survey results, legal documents and specific information needed to complete the cash budget (for example, proposed sales figures and collections from debtors).

## **Time For Action**

Having completed the first draft of your business plan, check it thoroughly and discuss it with the relevant people. You will probably find that some changes will be needed. You may need two or three versions before the final one is ready.

Now that your business is planned on paper, you need to establish a timetable to do the things that are needed to implement the plan. For example, you may need to register your business name, obtain a licence, complete house renovations, acquire stock, complete a course, advertise the opening date.

Good luck!

## **Overview**

Commencing and running a business at or from home can be a rewarding experience if you have the motivation and sufficient resources of skill, management ability, time and starting money.

Your chances of survival and success are appreciably increased by planning the enterprise from the start. It is wise to summarise your planning in a written business plan which includes a cash budget for at least the first twelve months.

A key purpose of a business plan is to provide a blueprint of what you aim to do and how you are to do it. It then provides direction as you test it against your actual experience and continue to modify it in order to meet your personal and business objectives.

## **Case Studies**

### **Superior Plant Hire**

Mary spent considerable effort in preparing her business plan. The advantages of this had been stressed in the twelve-week course she attended in small business management.

She outlined her personal objective of commencing a new career and of having control of her own business. Her financial objective for the first twelve months was to cover all her costs and, if forecast incomes eventuated, to make a contribution to the family income of \$2000 after tax.

The marketing section of the plan emphasised that she was providing a specialised service to customers and not just hiring out plants. Her plants were to be of a high quality. Pricing and advertising plans were detailed. Superior Plant Hire was to be a sole trader, with Mary as the organiser. The plan outlined Mary's equipment and delivery needs, her time management and her personal network.

Mary realised that her large bank loan rendered her business more risky than otherwise. Therefore the financial management details of the plan were carefully considered and detailed. A cash budget and projected income statement were completed for each month of the first twelve months of the business. Taxation requirements and the bookkeeping system were included after discussions with Mary's accountant and her husband.

Mary found that although her plan was only 15 A4 pages in length, the attachments were more than 20 pages. The plan itself provided a clear account of the direction of the business for the planned period, but the detailed workings were in the attachments.

### **L. & R. Leaver**

Len and Ruth first realised the need for a business plan when they participated in an evening workshop for new small business operators organised by the State Government Business Corporation. Their accountant explained what was needed and suggested a suitable format for their business.

Their personal objectives were stated in the plan. Len would be able to independently specialise in his trade, and Ruth could help with the family and also contribute to the business. The family income was to be increased above that provided from Len's present salary, but it was stated that this may not occur for at least two years.

Len paid a lot of attention to the marketing details. The emphasis was to be on specialised, high-quality small-scale offset printing. Because of his detailed knowledge of the printing industry Len felt confident in his location, methods for finding customers and the pricing structure.

The business partnership was stated in the plan as being organised on a team basis between Len, the printer, and Ruth, the administrative manager. The responsibilities of each were outlined, and details of the network of the business were explained.

Equipment requirements were outlined, and plans for the replacement of the printing plant in four years were explained. The financing of the printing plant was explained in the plan. The cash budget was formulated to include loan repayments for the plant over a four year period.

A simple bookkeeping system was established that would provide accurate figures for Len to check his costing estimates, cash receipts and payments to check against the cash budget, and a monthly income and expenditure statement. Ruth was to be responsible for the system. Len and Ruth found that their accountant's advice was needed to complete the financial management section of their plan.

## **8: Advice For Starters.**

A cross-section of owners of successful home businesses were asked by the author to provide three pieces of advice for any person considering starting a business at home. Their most common responses are listed below.

- Be fully organised from the beginning.
- Persist to meet your objectives.
- Start small and slowly.
- Make sure of your market before starting.
- Understand and assess all the costs involved.
- Seek advice from all possible sources and from other businesses.

- Consult the government Business Centre from the start and along the way.
- Complete a realistic budget.
- Keep bookkeeping up to date so that you get a good picture of how much money is being made.
- Keep in contact with associates in the same industry.
- Care for your customers.
- Complete every job thoroughly to improve your chances of recommendations or repeat work.
- Retain your sense of humour even when the chips are down.
- Always give an image of success.

In a more structured survey form owner-managers were asked to provide advice for anyone considering starting a business from home and 191 replied as follows:

1.	Obtain family support	14%
2.	Undertake a market study	12%
3.	Have a separate space for work	12%
4.	Have sound planning	11%
5.	Have a separate business telephone	7%
6.	Use an answering service	7%
7.	Have a sound information system	6%

The key suggestions are all practical ones. Items 2, 4 and 7 are no doubt aimed at improving the viability of the business. Item 2 could assist with the difficulty of advertising. Family support would be essential and items 3, 5 and 6 would be aimed at reducing the disadvantages of distractions, lack of privacy and lack of space.

