

# STARTING A BUSINESS

AN ESSENTIAL GUIDE TO  
HELP YOU DETERMINE  
WHETHER YOUR BUSINESS  
IDEA WILL WORK

New Zealand  
**TRADE & ENTERPRISE** 





**HELPING** PEOPLE BUILD  
**BUSINESSES** BASED ON  
**GOOD** IDEAS AND  
**CLEAR** GOALS

AN ESSENTIAL GUIDE TO HELP YOU DETERMINE  
WHETHER YOUR BUSINESS IDEA WILL WORK

### **Starting a Business**

An essential guide to help you determine whether your business idea will work.

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# INTRODUCTION

## *Want to know more about running a business?*

Contact the biz service on 0800 424 946 or visit the Government's business information website. You'll find plenty of free helpful information and advice about what it takes to start, and run, your own business successfully.

[www.business.govt.nz](http://www.business.govt.nz)

## *Protect your idea*

Asking people to sign a confidentiality or non-disclosure agreement can be a sensible precaution to take once you start sharing your idea with others. How simple or complex an agreement you use depends on what you need to safeguard.

Search online for sample agreements or talk to your lawyer about the best ways to protect your idea. Some of New Zealand Trade and Enterprise (NZTE)'s websites carry examples relating to export and capital raising.

[www.nzte.govt.nz](http://www.nzte.govt.nz)

[www.escalator.co.nz](http://www.escalator.co.nz)

## **Why are you going into business?** <sup>1 & 2</sup>

Most people find the thought of working for themselves quite appealing. Being your own boss offers the freedom to work your own hours, make your own decisions and create your own lifestyle. However, establishing a successful business requires more than a good idea and a willingness to give it a go.

Even the most brilliant, commercially viable ideas need a strong driving force behind them to get them to market. Unlike larger organisations with the personnel to keep a project on track, when you start running your own small business, you are the driving force.

As well as having the required level of skill, ability, knowledge and experience to run your business, you must be prepared to work hard and, above all, be clear about why you are going into business.

Running your own business can involve a great deal of personal sacrifice, particularly in the start-up phase, and enthusiasm can only carry you so far. If there are times when you feel like giving up, a clear objective can provide the extra motivation you need to keep going.

Are you clear about why you are going into business? What do you hope to achieve? For example, are you aiming to:

- make substantial amounts of money?
- be independent?
- provide a product or service about which you feel passionate?

How you go about building your business and how you measure success depend on what you want to achieve. How you achieve that success may ultimately depend on your attitude and commitment.

If you're in any way unsure that you have the right attitude and motivation to get your project off the ground, reconsider your options now. It is not feasible to run a business without them.

If you believe you have what it takes, you now need to decide if your idea does too.

## **Why you need to complete a feasibility study**

If you're positive that you (and your idea) do have what it takes, you're probably really keen to get started. However, be cautious. Even the best ideas can fall short of being viable propositions. Starting up any new business venture involves some risk. The best way to lower that risk is to research your business concept.

So before you quit your job, invest all your savings or tell everyone you know that you're about to set up on your own, complete a feasibility study. Completing the study will help you to decide if you can realistically establish a profitable business.

Working through this guide will help you to find out:

- if there is a sustainable market for your product(s) or service(s)
- if you can afford to get your venture off the ground
- how long it might be before you start making money
- what potential risks you might face and how you can minimise or eliminate them
- whether your business is sustainable in the long term
- if this is the right venture for you right now.

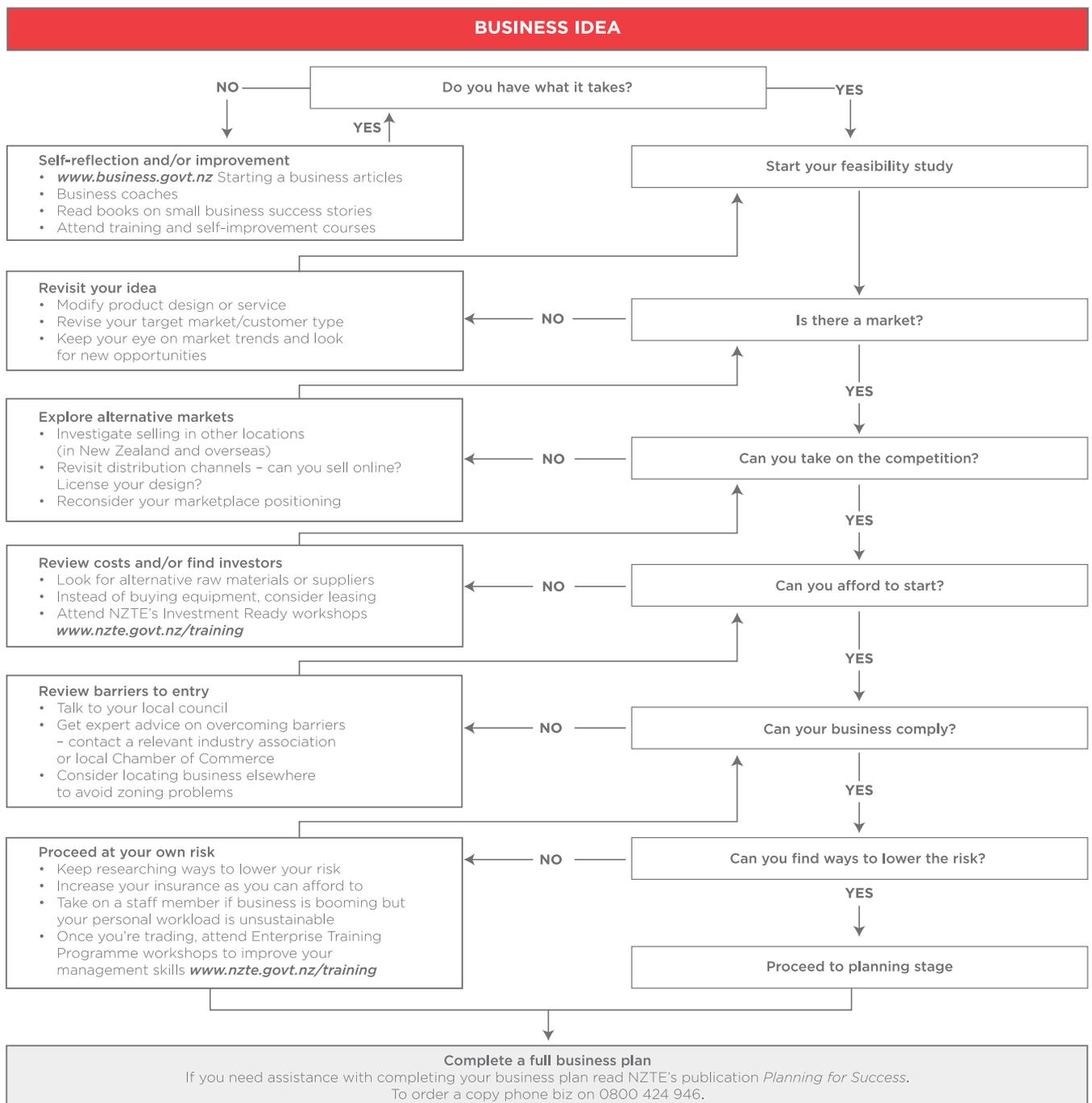
If at any stage your research proves that your good idea is simply that – a good idea, but not a good business idea – it makes sense to shelve or revise your plans. You'll save yourself considerable time, money and effort.



If you decide to proceed with your business, your research will help you to complete a full business plan. Your findings can help you to make practical decisions (such as on business location, equipment, technology and staffing needs) and shape your marketing and business development strategies.

**Reassure potential funders**

Being able to provide supporting evidence and information based on sound market research can impress potential lenders or investors who you approach for funding.



# CHAPTER 1

## IS THERE A MARKET?

### *Do as much D-I-Y as you can*

Try to gather as much research as you can yourself. If necessary (and if your budget allows) you can contract a market research specialist to carry out more detailed research.

At this stage you're probably enthusiastic about your idea and your intuition may be telling you that it's definitely worth pursuing.

You might also have received great support from family members or business associates, spoken to some enthusiastic prospective customers or even made a few preliminary sales. All this may seem very encouraging, but these are people who already know you. Their enthusiasm may not accurately reflect the wider market's response.

Although there's room for intuition in business, making the decision to start your business on 'gut instinct' alone is certainly risky and, depending on what you stand to lose, possibly quite reckless. Time spent on research will strengthen your knowledge base and improve any decision you make.

This chapter will help you to identify:

1. if there's a need for your product or service
2. the profiles of your 'ideal' customers
3. ways to research the potential size of your market
4. how you'll reach your market
5. possible trends that could affect your venture.

### **Investigating market potential**

You need solid evidence that a market for your product or service actually exists.

Measuring your market accurately is likely to be the hardest part of your feasibility study. It's difficult to do this precisely – even large companies can't predict exactly what will happen when they launch a new product or service.

The only guaranteed way to find out exactly how the market will respond to your business is to start operating and see what happens. Try to resist this risky temptation until you've analysed the potential.

At the very least you need to find out:

- who might buy your product or service
- where they're located
- how big the market is
- how much customers would pay
- how often they might buy
- when they'd buy (for instance, is demand seasonal?).

### **Find out what potential customers think**

Before you ask people for their opinions, clarify exactly what you're trying to find out from them, then decide how you can best collect the information.

A simple example would be to ask 20 potential customers three key questions:

- 1. What do you like about this product?** This is a useful question to uncover both market demand and any possible improvements to the product.
- 2. What would you pay for it?** This can provide a first glimpse of an acceptable market price.
- 3. Would you buy it?** This question can be critical because they may say positive things about the product – perhaps to please you – but have no intention of actually buying it.



There are other research options too.

- Trial marketing in a limited area to gauge the larger market potential.
- Holding a focus group of six to 10 potential customers for an in-depth discussion of the product's potential.
- Emailing or posting questionnaires, or leaving them next to 'drop-boxes' in targeted locations (such as doctors' surgeries, gyms and kindergartens). To encourage more replies, it can be useful to provide some incentive, such as a gift or entry to a competition.
- Promoting discussions in online chat rooms.

### **Trial marketing**

Trial marketing can be one of the most reliable ways to test your market potential. For example, if you're introducing an innovative product or service, can you:

- set up a small-scale business at your local market?
- test the response at a trade fair?
- launch a direct mail campaign in a selected town or area?

The larger your sample size (the number of people you've talked to or the area you've test marketed) the more accurate your market predictions are likely to be. Specific market information is always superior to guesswork. It can also help to convince your backers (such as the bank or investors) that your sense of market potential is supported by some solid research rather than wishful thinking.

### **Profile your 'ideal' customer <sup>3</sup>**

Researching the market enables you to steadily build a profile of your 'ideal' customer. This is important for two reasons:

1. The more precisely you can define your ideal customer, the more accurate your analysis of market potential is likely to be.
2. When you start your business, you can focus your marketing far more effectively.

For example, if your product or service is intended for businesses with between 10 and 50 employees, you can research how many such businesses exist in New Zealand and where they are located.

### **Create individual or segment profiles**

If you're planning to sell to a variety of customer 'types', create an individual profile for each.

For example:

- consumers
- resellers (retail or wholesale)
- other businesses or organisations.

Be as specific as possible. For example, a beauty therapist planning to set up in Hamilton might list:

- gender - female
- age range - 35 to 65 years
- location - Waikato region
- income level - more than \$40k per annum.

### *Talk to potential suppliers*

As potential suppliers may already be working in your market, it can be useful to tap into their knowledge of the marketplace.

### *Customer profiling*

Customer profiling should continue throughout the life of your business. Markets change, and you can never know too much about your customers.

### Did you know?

Statistics New Zealand has a range of information, tools and services to help you to research your market to determine potential market size. To find out how you can compile your own research for free using tools such as ‘Table Builder’, which allows you to customise statistics for your own needs or obtain an obligation-free quote on the cost of compiling research for you, visit the Statistics New Zealand website.

[www.stats.govt.nz](http://www.stats.govt.nz)

(Select ‘quick links’ to find the Table Builder. To request information select ‘contact us’ for more details.)

Otherwise, contact the Statistics New Zealand Information Centre toll free on 0508 525 525.

### Research comparable markets

It can also be useful to investigate what businesses similar to yours are doing in a similar-sized country with a comparable population. Assuming the dynamics and geographics are similar, if businesses like yours are doing well, the chances of you doing well could be favourable too.

For example, if you plan to operate in New Zealand, Denmark or Wales could be comparable markets. Search online for your business idea in those countries, and see what comes up.

If relevant, you can then drill down into more detailed information, such as their interests, personal beliefs and values. For example, do they make choices and buying decisions with a sense of social responsibility, preferring free trade or organic products?

### Business or organisational profiles

If you plan to deal with other businesses or organisations (including resellers), firstly list their practical characteristics. For example:

- organisation type (reseller, service provider, manufacturer or non-profit)
- industry sector
- location
- size/annual turnover.

Again, if you think it’s relevant, you can drill down deeper and consider their ethics or values. For example, do you imagine they support a particular commercial philosophy or environmental or community cause?

Even if you plan to run an e-business and are intending to sell to ‘the whole world’, in reality your potential market size will be limited and you will benefit from researching your targeted e-customers to see if they’ll buy in sufficient numbers to make your business sustainable.

### Build a market profile <sup>4</sup>

You may already have an idea of where you want to locate or do business. Building a market profile can help you to pinpoint where and how many of your ideal customer ‘types’ actually exist, to help you to calculate the potential scope of your market. It can also help to clarify how you can feasibly reach them.

Depending on your idea, you might need to find out how many customers fitting your ideal customer type live:

- locally
- regionally
- overseas.

It’s unrealistic to imagine that 100 percent of people or businesses fitting your profiles will become your customers. Some will already be loyal to other businesses or brands and others may simply not be interested in what you have to sell.

### Use existing information

Much of the information you need may already be freely available.

- Statistics New Zealand ([www.stats.govt.nz](http://www.stats.govt.nz)) can provide valuable demographic information showing where people of different age and income groups live, which areas are growing or declining, and many more useful statistics.
- Libraries stock trade directories, magazines and journals that can be rich sources of information. Librarians are trained to help you to speed up your research.
- The internet is a rich source of information, including online directories, magazines and useful articles.

Try to use a variety of sources and research methods to gather your information, and remember that research is constantly being updated and reworked.



## Avoid over-analysis

With so much information available to you, there is a danger of over-analysing your position. There are some things you should do to keep your project moving and avoid 'analysis-paralysis':

- Set a research budget.
- Identify the key information required.
- Decide on your research methods.
- Specify a timeframe for completion.

## How will you reach your markets? <sup>5</sup>

Once you're satisfied you'll have sufficient customers, how do you plan to reach them? It's worth spending some time researching this, because in your larger business plan you'll have to be clear about your channels to market.

There are several possible channels to market:

- Sell direct (for example as a retailer, or a manufacturer with a factory shop).
- Sell through a wholesaler.
- Sell through a website.
- Employ your own sales force.
- Use sales agents or a distributor.
- License your product or service.
- Franchise your product or service (normally only an option when you have a proven business model with an established track record).
- Form a joint venture or strategic marketing alliance with another company(s).

Each option has advantages and disadvantages. For example, if you're a manufacturer and sell to retailers, they may not appreciate it if you start selling directly from a website or a factory shop.

Again, if you choose to sell through a commission agent, you may save the cost of hiring your own sales force, but an agent representing many products might not be as motivated to focus on yours.

Consider also the impact on your pricing if you have to sell through others.

## Study the broader picture

### Industry and market trends

It's often said that the only thing that remains constant is change, and this is certainly true of your markets.

Future consumer and economic trends can impact significantly (and sometimes quite rapidly) on businesses of every size, so research the wider marketplace before you start, to ensure your business is sustainable long term. Pay particular attention to any economic, social and industrial trends or changes that could impact on your business.

- Read local and international online newspapers.
- Browse industry and trade journals (online or in the library).
- Listen to business and current affairs via pod casts or on the radio.
- Watch overseas business and current affairs programmes.
- Subscribe to SMS text news and business updates via your mobile phone.

### *Free research on overseas markets*

For up-to-date information and research on overseas markets, visit the 'Explore Export Markets' section of NZTE's website. The Statistics New Zealand website also has an extensive list of links to equivalent services or similar sites around the world, including Australia, the United Kingdom, China and the United States.

[www.nzte.govt.nz](http://www.nzte.govt.nz)

[www.statistics.govt.nz](http://www.statistics.govt.nz)

(Select 'related sites' at the bottom of the home page.)

### *Sharpen your research skills online*

To sharpen your research skills, take advantage of the free online training modules on the Government's website. These include topics such as 'Conducting effective market research' and 'Researching international markets'.

[www.business.govt.nz](http://www.business.govt.nz)

(Select 'Developing business skills'.)

### *Want to develop a socially responsible business?*

The Ministry for the Environment offers an extensive range of information, research, tips and tools on running sustainable businesses with a sense of social or environmental responsibility.

[www.mfe.govt.nz/issues/sustainable-industry/tools-services](http://www.mfe.govt.nz/issues/sustainable-industry/tools-services)

### *Tap into local expertise*

Rather than wading through piles of information and trying to work out what's going on, tap into local New Zealand expertise. Your local Economic Development Agency (EDA) and other professional business and industry associations have knowledgeable and experienced staff who will probably be able to tell you what's ahead in your market regionally, nationally and overseas.

[www.business.govt.nz](http://www.business.govt.nz)

[www.edanz.org.nz](http://www.edanz.org.nz)  
(Select 'About EDAs' to find your nearest agency.)

### *Free Expert Market Intelligence*

Keep up to date with the latest market information. Register online for NZTE's global market analysis bulletins at [www.nzte.govt.nz/exportnews](http://www.nzte.govt.nz/exportnews)

### **Industry and market cycles**

Every industry (and its market) has a life cycle. Are you entering a growing, mature or declining industry? Study the influential marketplace factors and consider the implications for your business.

Generally the fewer competitors you have, the more feasible your business is likely to be. But a lack of competitors might also indicate a declining market for your product. For example, you may wish to start a video and DVD rental shop in your area. But will faster broadband make this whole industry obsolete in the next five years?

On the other hand, a declining market may also provide an opportunity for you to develop a specialist niche. It may no longer pay a large company to service a particular market, but there may be good profits for a smaller business.

An expanding market could mean more competitors will soon emerge as they spot the opportunity too. It may also mean that the few competitors already out there will respond very quickly, and possibly very aggressively, when you enter the marketplace.

### **Global influences**

Keeping your eye on current affairs and the global marketplace gives you the chance to identify any potential threats and opportunities early on.

For example, today's greater 'global awareness' has prompted a growing market of people (and organisations) who make buying decisions based on social, political or environmental factors. Concerns about climate change mean more consumers are looking for eco-friendly solutions. Will this trend limit or assist the growth potential of your business in any way?

### **Local influences**

Look at what's happening within the New Zealand marketplace too. Are there any emerging local trends that could influence your success? For example:

- is your industry being supported and developed at a regional or national level?
- are there active market development and/or investment activities underway that could assist your business?

### **Identify any opportunities and threats <sup>6</sup>**

As you review these global and domestic trends, new opportunities may emerge from your analysis. Consider how these will impact on your business.

For example, you might identify:

- different customers or markets from those initially considered
- opportunities for innovative services
- a lead to a potential investor.

Threats can be harder to acknowledge and particularly devastating to a new business, so take a realistic look at these:

- Upcoming changes in legislation.
- A move in competitor positioning.
- Fluctuations in currency exchange rates.
- Emerging technology that could revolutionise an industry.



### How much is too much research?

You can never really know too much overall about your market or your customers. However, there are practical limits. Try to do as much research as necessary to satisfy yourself that your idea is worth pursuing. Then run your research past some advisors to get their perspectives.

If your business idea needs large-scale investment, involves long-term development and/or demands a great deal of personal risk to get it off the ground, your feasibility study may need more detailed research from a professional firm.

### Timing can be important

Your research may show that the current market for your business idea is too small to be sustainable. If there are not enough people willing to buy your product, then regardless of how wonderful your product or service, your business will not be feasible.

In this case you might want to revisit your initial idea and look for ways to refine or adapt it, or you may have to accept that the market is simply not ready for your business idea. Many great ideas appear ahead of their time but are later successfully taken up by others. For instance, few companies saw the potential for Velcro when it first appeared on the American market. Now it's used in hundreds of applications.

### MARKET RESEARCH CHECKLIST

Make sure that you work through all these steps to establish if there is really a sustainable market for your business before you move on to the next stage of your feasibility study.

- Research the demand for your product.
- Decide if the demand is sufficient and sustainable.
- Build detailed profiles of your ideal customer types.
- Create a market profile for each market segment.
- Work out how you'll reach your market(s).
- Consider industry and market trends.

If you decide the potential is there, the next step is to assess if your business can make its presence felt in the marketplace and determine what market share your business can realistically gain.

It's time to look at the competition.

### *Be honest with yourself*

Given that you're taking an up close and personal look at yourself and your business idea, weaknesses and threats can be harder to acknowledge than strengths and opportunities. As you work through your study, remember that the purpose of the exercise is to test the feasibility of your business realistically and minimise risk.

### *Conduct a mini-SWOT analysis*

Invite some family members, friends, colleagues or business associates to join you for a SWOT (Strengths, Weaknesses, Opportunities and Threats) brainstorming session.

Set a timeframe – say, half an hour. Record all the ideas that are put forward. Resist the temptation to respond to any suggestions; simply write them all down, then evaluate each idea afterwards.

Break for refreshments. Leave the ideas in full view for people to think about, then come back together and brainstorm possible ways to maximise strengths and opportunities and minimise weaknesses and threats.

## CHAPTER 2

# COMPETITOR ANALYSIS

### *Pinpoint your competitors online*

Find precisely where your competitors are located on the online Yellow Pages service. You can find businesses by location and distance radius and view their opening hours. Some ads include a link to their websites so you can pay an instant visit to review exactly what they're offering.

[www.yellowpages.co.nz](http://www.yellowpages.co.nz)

Let's presume at this point that you're satisfied there's a sustainable demand for your product or service. The next question is, what market share can you hope to gain? There is always going to be competition (direct or indirect) for the customer's dollar, so you need to study the competition.

This chapter will help you to:

1. identify your obvious and less obvious competitors <sup>7</sup>
2. consider ways to compete against them
3. create barriers against competitors to protect your business.

#### **Your direct competitors**

Researching your direct competitors is essential. These are the businesses selling a directly comparable product or service to yours – the ones that you'll initially be 'up against' if you go ahead and launch your business.

For example, if you're planning to develop and sell a new accounting software package, your direct competitors could be:

- other specialist accounting software firms
- general retailers selling existing off-the-shelf accounting packages
- computer resellers 'bundling' accounting software with hardware purchases.

If you're to succeed, you'll need to distinguish your business from your direct competitors and successfully woo their customers. To do this well, at the very least you need to know:

- what they offer
- what they charge
- what they do well (such as service)
- what they don't do well (such as quality)
- where there are gaps you can exploit.

#### **Where do you find them?**

Even if you know your intended market reasonably well, be wary of assuming you know who all your direct competitors are. Not every successful business has a large shop frontage or a high market profile, and you'll need to dig deep if you want to find out how many more may be 'out there'.

- Search specific categories in online business directories such as Yellow Pages or Universal Business Directory (UBD).
- Walk around the area where you intend to locate your business.
- Ask people if they know of any similar businesses.
- Read trade, industry and general business publications.
- Review business and industry websites.

Once you know who they are, researching your direct competitors might be easier than you think. All businesses (even those that take a low-key approach) are in the business of self-promotion – it's how they attract customers – so there's usually plenty of freely available information about them and their products and services.

- Review their websites and subscribe to their online newsletters.
- Search their business name and the names of their key staff online.



- Read their annual reports and marketing material.
- Attend trade shows where competitors exhibit.
- If possible, visit their premises and buy something.

### Your indirect competitors

Indirect competitors are those offering a related product or distraction that a customer could choose to purchase instead of yours. You'll need to think laterally to identify your indirect customers, as they may not be immediately obvious.

For example, if you plan to open a hairdressing salon:

- your direct competitors will be other hairdressers within your target area
- your indirect competitors might be a local department store with an extensive range of hair accessories and in-store makeovers, or a local community education provider running 'how to' demonstrations or workshops in the evenings and on weekends
- even more indirect may be the customer's decision to spend the money in other ways (such as on buying movie tickets for the children instead of on a haircut).

The point is that there are always other options on which people or businesses can spend their money, and you need to be aware of these alternatives.

#### Focus on the immediate threats first

Although it's wise to be aware of your indirect competitors when you're in business, focus first on your direct competitors as they'll be most likely to launch a quick challenge once you start.

### What is your competitive advantage? <sup>8</sup>

Once you know what competitors offer, you can compare your similarities and differences to identify your points of difference, then develop these into a compelling competitive advantage.

Most of us are creatures of habit, preferring to stick with the familiar rather than trying something new. So to entice customers away from the competition, consider these questions:

- What precisely is your competitive advantage or unique selling proposition (USP)?
- How do you plan to communicate your USP to your customers?

This is the one key question lenders and investors are likely to ask you. What makes your business different?

If you're concerned about taking on larger or well established businesses, remember that being a small business can be a distinct advantage in itself. You're often better placed to:

- make faster decisions (fewer management levels than in larger businesses) and therefore respond more promptly to customer requests
- offer guaranteed personal contact
- provide flexible opening hours or accessible after-sales service and support.

These seemingly simple differences can actually make a significant difference to the customer.

#### Strengths and weaknesses

Promote your strengths and minimise your weaknesses.

Your strengths can give you a competitive advantage. For example, you might have excellent product or technical knowledge, or be very well networked and respected in your intended industry sector.

#### *Save time – go to the library*

Most city libraries offer a business research service and may be able to compile profiles of your competitors, their customers and other competitive information at a very reasonable cost.

[www.nzlibraries.com](http://www.nzlibraries.com)

#### *Attend trade shows*

Attending trade shows as a visitor is a great way to gather market intelligence and collect competitor information. You might even get lucky, with someone on the stand unwittingly telling you all about the business and how it operates.

[www.business.govt.nz](http://www.business.govt.nz)

(Select 'Business calendar' to search for upcoming trade shows.)

#### *Promote your competitive advantages*

Don't expect customers to guess your points of difference. Competitive advantages are only advantages if you strongly promote them.

### Intellectual Property Office of New Zealand

Find out more about protecting your IP in business from the Intellectual Property Office of New Zealand (IPONZ) website. It has details about patents, trade marks, the value of IP and other useful IP information.

[www.iponz.govt.nz](http://www.iponz.govt.nz)

Look for ways to minimise your weaknesses. For example, your competitor may have five branches nationwide, while you have only one shop. But could you achieve the same market reach through a website? If your competitor has greater purchasing power (getting products more cheaply) can you form an alliance with similar businesses in different towns or regions to gain more buying leverage?

### Reducing the effects of competitors

Try to anticipate how your competitors will react to your encroaching on their 'territory' once you start operating. They might make an effort to drive you out of the market before you get established.

- How could you cope with a massive discount battle?
- What other tactics do you think they might employ?

Just as there'll always be change, there'll always be competition in the marketplace. Sometimes businesses can benefit from clustering together (think of areas of a city devoted to bars or clothing shops). In other cases proximity can damage prospects. Imagine what would happen to your business if someone set up shop alongside you. Would this boost or damage your trade?

### Create barriers against competitors <sup>9</sup>

To be sustainable long term, you must be able to defend your business and reduce the effects of competitors encroaching on your market.

If your business flourishes, what's to stop other people copying your idea? Copycats can significantly damage the viability of your business, so use some straightforward and relatively inexpensive ways to protect your business even before you start trading.

Try to create barriers against your competitors that will make it harder for them to compete. For example, could you secure an exclusive operating licence or an exclusive deal or distributorship?

- **Exclusive operating licence.** Imagine you're planning to operate a jet boat tourist attraction and have managed to secure a commercial licence to operate on the river. No one else is running a similar attraction at this stage, but if yours turns out to be successful, they might. Can you ensure your licence is exclusive or that only a limited few will be issued?
- **Exclusive deal or distributorship.** Can you sign an exclusive deal with a particular supplier, effectively restricting competitors' access to your products?

### Protect your intellectual property

Unless you've invented something, you may not think you have any intellectual property (IP) to protect. However, even your business name and logo have potential value as they might be the very thing that gets you recognised in the marketplace.

### Protect your brand

Your business name and logo become a brand in the marketplace from the day you start business. Take steps to protect them. Before you design your logo, stationery and signage, check that no one else is using your trading name. Can you imagine discovering after you've got all your stationery printed that there's already an established business with the same or a confusingly similar name? How much would it cost to re-design and re-print everything?



These steps will help you to protect your business name before you start trading.

1. If you intend to form a company, reserve your chosen name through the Companies Office website ([www.companies.govt.nz](http://www.companies.govt.nz)). As a competitor will be unable to register a company name that is identical or almost identical to an existing (or previously reserved) one, forming a company offers you a degree of protection.
2. If you intend to start as a sole trader or partnership, check both online and printed directories to ensure that no similar trading name exists. Also enter the name in search engines such as Google or Yahoo to see what comes up. (Tip: by adding 'NZ' after the name you can check on local clashes first.)
3. Check for clashes or confusingly similar names on the IPONZ website ([www.iponz.govt.nz](http://www.iponz.govt.nz)). Consider registering your trading name and logo design as a trade mark to deter imitators.
4. Secure your web domain name. Once you've registered your web domain name it can't be used by anyone else.

### **Protect your ideas**

If you have a totally new product or service, being 'first to market' may give you an initial advantage, but if it's profitable, it's quite likely that others will eventually try to adapt or copy your idea.

Depending on the level of commercial sensitivity surrounding your product or service, it may pay to talk to a specialist IP lawyer. This is particularly important if you plan to run sample tests in the market, and while this may seem an unnecessary expense at the moment, failing to protect your idea could be a lot more costly in the long term.

### **Patents**

Owning a patent for an invention or new manufacturing process can exclude anyone else from commercialising that idea for a period of 20 years. IPONZ deals with patent applications in New Zealand.

### **Copyright**

Copyrighting written material is a quick and easy way to gain a level of protection for any original creative work. To indicate that your material is copyright protected, simply including the symbol © together with your business name and date gives you a certain level of protection.

As with any legal protection, it can pay to talk to a specialist lawyer.

### **Maintain customer focus**

Another way to create barriers for your competitors is to avoid being distracted by what they do. After all, you're going into business to do business with your customers, not your competitors. Aim to maintain your customer focus and provide excellent service.

- Ensure that you have enough staff to provide satisfactory customer service consistently and build good customer relationships.
- Focus on promoting one or two key competitive advantages. Too many can confuse customers.
- Implement effective business systems to provide consistent standards.
- Empower staff to resolve most customer service issues without delay.
- Resist the temptation of a price war with your competitors. Concentrate instead on adding value to what you offer.

### *Do a trade mark search*

Do a trade mark search on the IPONZ website to check if anyone has already registered something similar to your intended name as a trade mark.

[www.iponz.govt.nz](http://www.iponz.govt.nz)

### *Ask for professional recommendations*

Ask a relevant industry association or your local Chamber of Commerce if they can recommend a specialist IP lawyer who is already familiar with your industry or market. This information can be found online.

[www.business.govt.nz](http://www.business.govt.nz)

### *Copyright Council of New Zealand*

The Copyright Council of New Zealand website carries information and up-to-date news about copyright protection.

[www.copyright.org.nz](http://www.copyright.org.nz)

### Position consistently

Aim to get your positioning against competitors right from the start. Even though you might know where you want to position yourself in the marketplace, ultimately it's the consumer who decides where they think you fit. However, you can influence the way they position you.

If you're aiming for the high quality end of the market, but you present an image that's inconsistent with this, it will be hard to persuade people differently once they've made up their minds.

If it's not feasible for you to position yourself where you need to be (for example, you may lack the funds to position your product in the luxury end of the market), consider revising your idea or holding off until you can source more funding.

Four popular ways small businesses choose to position themselves

1. **People** – level of expertise or depth of knowledge.
2. **Product** – range, price, service.
3. **Location** – ease of access, prompt delivery.
4. **Image** – user friendly, upmarket, leading edge.

### Review your situation

Analysing the competition and different ways you can feasibly protect your business against them leaves you better placed to gauge potential market share.

#### Competitor analysis checklist

- Research your direct and indirect competitors.
- Compare their products and services to identify strengths and weaknesses.
- Define then promote your unique selling point or competitive advantage.
- Consider ways to reduce the influence of competitors.
- Identify and implement measures to protect your business.

The next stage of your feasibility study is to assess if you can afford to get your business up and running.

## CHAPTER 3

# CAN YOU AFFORD TO START UP?

Once you're satisfied that you have a good chance of gaining an adequate market share, the next step is to determine if you can afford to start up your business. This chapter will help you to:

1. calculate how much money you need to start your business
2. determine what other resources you need
3. set a realistic price for your product or service
4. create systems for managing your finances competently.

### Assessing how much money you need to raise

One of the biggest causes of business failure is underestimating the start-up costs plus the amount of cash needed to sustain the business until it breaks even.

Working through the financials at this feasibility stage will help you to assess how much money you'll realistically need to raise beforehand. It also makes sense to work out if your investment is going to bring you a good rate of return.

For example, if you're planning to take out a loan or mortgage or use your savings to set up your business:

- how long can you afford to support yourself until the business turns a profit?
- will all the time, trouble and risk involved in setting up your business be worth it, or would you be better off investing your money elsewhere and working for someone else?

### Calculating set-up costs and working capital

To avoid underestimating your set-up costs, try to be as accurate as you can with your forecasts and calculations. Realistic forecasts can boost your confidence in your ability to meet regular and ongoing commitments, and give you a more accurate idea of when you can expect to reach key financial milestones.

#### Calculate your initial set-up costs<sup>10</sup>

You may already have an idea of some of the costs involved in setting up your business, but getting those figures down on paper and doing some fundamental calculations give you the facts in black and white.

Calculating these costs also gives you a chance to consider what's necessary (elements you must have to get your business operational) and what's desirable (elements that you'd like but may have to discard or revise in the early stages).

Initial set-up costs might include:

- locating suitable premises
- buying plant and machinery
- buying furniture and fittings
- buying general office equipment
- buying technology.

As you research and record each item of expenditure, try to source credible estimates and prices, but be aware that costs sometimes come in higher than you expect, so budget accordingly.

Also, try to be resourceful. Consider how often you'll use a particular asset and look at possible alternatives. For example, do you have to buy a new or top-of-the-line item or could you lease, hire or buy second-hand equipment instead?

### *Get your figures checked*

Give your figures to an accountant to check. As they deal with many businesses, they can help you to make your forecasts realistic.

### *Buy at auction*

Online auctions and auction yards can be great sources of cheap second-hand equipment. Keep your eye on the local paper, register on sites like Trade Me or ask your local business contacts to let you know of any upcoming sales and auctions.

### *Avoid over-investing in fixed assets*

Unlike day-to-day business expenses, assets are depreciated in value over a period of time and you can't claim the full amount spent immediately. If you're unsure how depreciation works, talk to an accountant.

To find a suitable accountant in your area, ask your associates for a recommendation or visit the New Zealand Institute of Chartered Accountants' website.

[www.nzica.com](http://www.nzica.com)

### *For a few dollars more*

Remember that quotes and estimates can differ from actual costs. To avoid any nasty surprises, allow a few dollars more and build in a percentage on top of your estimates to meet additional 'hidden' costs that can take you over budget.

### *Be energy efficient*

Investigate ways to minimise costs by using energy-efficient equipment and processes. Use the Energy Efficiency and Conservation Authority's small business planning tool to see how you can maximise your energy efficiency and minimise costs.

[www.emprove.org.nz](http://www.emprove.org.nz)

### **Hidden costs**

Remember to factor in the 'hidden' costs of setting up a business too; the 'little things' that may not be quite as obvious as a building, plant or machinery. These costs may be comparatively small, but they all add up and could significantly impact on your ability to set up.

- Deposits or advance rent/lease payments.
- Connection charges such as electricity, phone and internet.
- Any insurance premiums payable in advance.
- Distribution costs.
- Travel costs.
- Website-development costs.
- Stationery, promotional material and signage.
- Wages/PAYE/KiwiSaver if you intend employing staff.
- Professional fees (accountant, lawyer or business consultants).

### **Working capital <sup>11</sup>**

Working capital is the amount of money needed to keep your business running until you break even. Raising your set-up costs is the first challenge, but for your business to be feasible you must have enough working capital to cover the ongoing costs.

You need to factor in both fixed and variable costs to calculate how much working capital you'll need.

### **Fixed costs**

Fixed costs are the regular expenses such as phone, power, rent and stationery. They are costs that remain reasonably constant, regardless of your sales activity.

### **Variable costs**

Variable costs are the costs related to the delivery of your product or service (for example, your stock purchases) and relate directly to your sales volume. For instance, if your sales increase you'll need further supplies to meet demand, so your costs will increase. Likewise, if sales decrease, there's no need to buy in further supplies, so your variable costs go down.

### **Costing and pricing <sup>12 a, b & c</sup>**

If your business is to succeed, your prices must cover the cost of producing your goods or services, plus generate a profit. This may seem obvious, but it's easy to get it wrong. Too many new businesses neglect to crunch the numbers and discover too late that they're either not making money or, even worse, losing money.

Your earlier market research will have given you an indication of what prospective customers are prepared to pay, so now it's time to work out if you can feasibly deliver on their expectations and get a return on your investment.

### **What's the cost to you?**

Before you set your prices, look at the overall cost of producing your product or service.

On top of the variable costs involved (such as material, labour and compliance costs) you need to factor in your fixed costs such as rent and power, then consider the amount of profit you want to make over and above these costs.

Prepare prices using different methods to help you determine the best costing and pricing method for your business, and be sure to talk to your accountant before finalising your pricing structure.



As you work through the different costing and pricing methods, you may discover that your idea is just not cost effective. Even though this is disappointing, it is better to discover this now than further on down the track.

## Common pricing methods

### 1. Cost-plus pricing

This method involves calculating all production costs and adding a required margin to meet a preset price point. Often used for specific projects, this method excludes any fixed costs, which are instead absorbed into the overall profit margin, based on projects ongoing over the year. For example, if you were selling books the cost-plus might be:

Raw materials per book (paper, ink, plates)	\$5.00
Freight	\$1.50
Packaging	\$0.20
Labour	\$3.00
Other - design work (\$1000/1000 copies)	\$1.00
<b>Total cost</b>	<b>\$10.70</b>
Required margin	\$15.00
<b>Sell price is</b>	<b>\$25.70 excl GST</b>
<b>or</b>	<b>\$28.91 incl GST</b>

### 2. Job cost - materials plus labour

Job costing involves creating a 'job card' for each transaction, using it to record all materials used plus any labour time involved, then adding a profit margin or 'mark-up'.

Example - Job card for bench seats:

Direct materials	Timber	\$40.50	
	Glue	\$1.10	
	Screws	\$1.50	
	Sandpaper	\$0.80	
	Stain	\$6.70	
<b>Total Direct Materials</b>		<b>\$50.60</b>	
Direct labour	15 hours @ \$10.00 per hour		\$150.00
Overheads	\$2.50 per direct labour unit	15 hours @ \$2.50	\$37.50
<b>Total cost</b>			<b>\$238.10</b>
Mark-up	(50% of cost)		\$119.05
<b>Selling price</b>			<b>\$357.15 excl GST</b>
<b>or</b>			<b>\$401.79 incl GST</b>

### *Only buy what you need*

Specials and bulk-buying discounts may be tempting, but can be a false economy if those goods are going to lie idle for some time and you desperately need that tied-up cash. Calculate your costs based on what you need to get your business up and running.

### *Overheads*

Calculate overheads by requesting quotes from suppliers, adding in your own actual costs and estimating monthly expenses such as phone and power. You should be able to assess your overhead level reasonably accurately by investigating carefully. Most suppliers will tell you their costs.

### *Markups and margins*

Most industries have standard markups or hourly rates (retailers often have set margins, or services can tend to price at a similar level). However always decide your own price based on the calculations in this guide first, and then compare to the market second.

### *Offering a service? Take a reality check*

As a service-based business, even though people might be paying you for your ideas, expertise or specialist knowledge, essentially you're selling your time.

Given that you (and any staff) will need to take holidays and spend time on administration, business planning and other non-chargeable tasks, avoid basing your calculations on 40 hours of chargeable time every week for 52 weeks every year. This is both unrealistic and unsustainable. Be realistic about how many hours worked each week will actually be chargeable.

### *What does the competition charge?*

Competitor prices can give you an idea of market rates, but it's still important to work out your own prices to ensure you can make a reasonable profit.

### *Talk to your bank manager*

Build a good relationship with your bank manager. They dislike sudden surprises, so be sure to keep them well informed of your plans and your progress.

### *Professional advice from industry experts*

If possible choose an accountant or financial advisor with experience of your industry, they may be able to provide useful benchmark figures for your industry type when you are calculating overheads and your product or service margin.

### **3. Hourly charge-out rate**

This is the method to use in a service-based business if you're charging for your time.

1. Decide on the level of income you want from your business.
2. Work out (realistically) how many hours you can charge out per year.
3. Calculate how much you'll need to charge per hour to achieve your desired income.
4. Add an additional hourly rate to cover the cost of your general overheads.
5. Finally, add a profit margin to allow for ongoing business and professional development costs.

For example, you want an annual income of \$80,000 and consider 1350 chargeable hours realistic (30 hours a week for 45 weeks of the year, taking into account holidays and time off sick).

$\$80,000$  divided by 1350 = \$59.26 per hour.

If overheads are \$40,000, divide that by 1350 to give the amount you need to charge per hour to recover in a year (\$29.63 per hour).

Now add in a margin for the risk of being in business of say \$20,000 (again, divide by 1350 hours, which equals \$14.81 per hour).

So to cover your \$80,000 income, \$40,000 overheads and \$20,000 profit you'll need to charge \$103.70 plus GST an hour (\$59.26 + \$29.63 + \$14.81).

Still feasible? Compare this with your direct competition.

Once you're satisfied that you can set prices that meet market expectations and give you a return on your investment, calculate if you can realistically meet ongoing financial obligations and commitments to ensure that everything runs smoothly. The way to assess this is to prepare a cash flow forecast.

## **Cash flow** <sup>15</sup>

### **Why prepare a cash flow forecast?**

Imagine how helpful it would be to managing your new business if you could glimpse your bank statements for the next year right now. A cash flow forecast is essentially an attempt to predict exactly what those future bank statements will look like. The closer you can get to the reality of those future statements, the better your financial management.

Preparing a cash flow forecast helps you to manage the cash coming in and going out of your business. You can compare the income you expect to receive every month with the costs and expenses you expect to meet.

As most start-up businesses experience cash flow 'crunches' at some stage, this is an important exercise. If you spot a shortfall, the forecast gives you time to approach the bank or other lender about a loan or bridging finance. Lenders will often be more open to helping you if you approach them well before a cash flow crisis than if you contact them in the middle of a crisis.

Without a previous trading history on which to base your figures, you'll have to estimate or predict sales based on your market research findings. The figures you use for your costs can be more precise, such as actual quotes from intended or potential suppliers.

Prepare a forecast for at least the first 12 months and, given that you're dealing with the unknown, we recommend you prepare three versions: 'pessimistic', 'realistic' and 'optimistic' forecasts.



If you decide to proceed with your business idea, you can update the estimated information in your cash flow forecast with 'actual' figures, using these to prepare more accurate forecasts in the future.

### Identify your cash cycle

As you put your figures together, consider your business cash cycle. This is the length of time it takes to turn your product or service around – from lead time into a completed (and paid-for) sale.

Each business has its unique cycle. For example it may take:

- a hairdresser 30 minutes to complete a job and get paid in cash
- a mechanic one to five days to complete a job, then 30 days to get settlement
- a wedding photographer three months from the wedding to receive a cheque
- a software developer two years to get any return on development work.

How long is your business cash cycle? If you sell on credit, build a delayed cash flow factor into your forecast since it may be a while before you see any money coming in.

If your intended business follows a seasonal pattern (for example, your sales increase or decrease over the holiday period), factor this into your cash flow.

Be sure to make provision for ongoing costs, equipment, staff and other resources that align with your plans for development and growth. Also remember to consider how much and how frequently you'll need to draw money from the business.

Then ask your accountant and your potential suppliers for their opinions of your estimated sales targets. They may be able to give you a good indication of expected volume based on their dealings with customers in a similar situation or industry.

### Identify potential cash flow risks <sup>14</sup>

You may hope for 'plain sailing', but try to identify any potential risks that might derail your cash flow predictions and impact on your business. Take this opportunity to review your weaknesses and possible threats to your business.

- Is your product tried and tested or could there be some potential 'blips' once it's out in the marketplace?
- Will your competitors respond with a special deal after you launch?
- Does your product have a limited shelf life or use-by date?
- Do you have a debt-collection system ready to limit any bad debts?

### Calculate breakeven <sup>15 A & B</sup>

Often viewed as a key milestone, your business is at breakeven point when your income is meeting expenses (but you have yet to start making a profit).

When you know what your breakeven point is, you can work out how much more revenue you need to produce the profit you want. If necessary, review your costing and pricing plan.

If it takes you too long to break even, your business may not be feasible or may need more longer-term investment.

### Seek professional advice

Complete as much of the forecasting as you can using your research and the templates. Then get professional advice from your bank manager or accountant on the realism of your forecasts.

### *Be aware of seasonal purchase cycles*

Many large organisations only make purchases at specified times in the year (often at the start of a new financial year). If you're planning to sell to a business or government department, you need to find out who makes the buying decisions and at what time of year they place their orders.

### *Plan according to your cycle*

The longer your cash cycle, the more working capital you're likely to need from the outset

### *Take a balanced approach*

Try to take a balanced approach. Too much pessimism or optimism can be damaging to your business. Revisit your figures and timeframes. Have you been realistic? If not, revise at this stage before advancing your plan.

### Free financial advice

Most major banks have a range of useful business information, tools and resources to help you with your financial forecasting and decision-making.

ANZ offers a Breakeven Analysis calculator.  
[www.anz.com/nz/business](http://www.anz.com/nz/business)

BNZ offers online training modules.  
[www.bnzadvice.co.nz/training](http://www.bnzadvice.co.nz/training)

The National Bank offers a Customer Business Resource Centre, with solution guides and a free start-up download.  
[www.nationalbank.co.nz/business](http://www.nationalbank.co.nz/business)

Westpac offers a business toolkit. [www.westpac.co.nz](http://www.westpac.co.nz)

### Looking for investors?

If you need to raise additional funds to get started, contact NZTE's Escalator service.

Escalator helps qualifying New Zealand businesses to get investment ready. Services include assessment and advice on your 'investment readiness', plus investment-specific workshops. For more information freephone 0800 822 748 or visit the Escalator website.

[www.escalator.co.nz](http://www.escalator.co.nz)

### Review your figures

Take time to review your calculations thoroughly before you move on to the next stage of your feasibility study.

- If your business isn't looking viable, revisit your figures to see if there's any way you can reduce your costs or overheads sufficiently to get you started.
- If the figures still make no financial sense, you may need to accept that your business is not feasible at present, but you've saved yourself money in the long term.
- If your business looks feasible, re-check your calculations to ensure that you've accounted for all foreseeable costs and have allowed a percentage on top to account for any surprise costs.
- If you plan to attract outside investment, you may need to prepare some more detailed financial forecasts.

Ensure that you work through all these steps to prepare realistic financial forecasts and assess if you can feasibly afford to get your business up and running.

### Financial feasibility checklist

- Calculate set-up costs and working capital requirements.
- Work through costing and pricing your products or services.
- Identify your business cycle and the implications for cash flow.
- Prepare a cash flow forecast.
- Calculate the breakeven point.
- Review your figures.
- Get expert input and advice.

If you're still confident that you're looking at a viable business proposition, the next step is to investigate the additional regulatory or external factors you need to take into account.

## CHAPTER 4

# MANAGING EXTERNAL FACTORS

The exciting part of a new business is the freedom you have to create your business model. But all businesses have to operate within the law, so it's vital that you identify the compliance issues you need to manage as well as other possible external factors you may have to overcome.

Many of these factors can be managed by following good business practices. Others may be harder to overcome, requiring expert knowledge and specialised systems that can be costly. A few may even be impossible to overcome.

Ignore external factors at your peril. It can be devastating once you have a project underway to find out too late in the piece that statutory regulations or commercial barriers to entry mean your business is simply not feasible.

The regulations and possible challenges you face will vary with your business type: a web design company may face fewer restrictions and compliance issues than a business set up to manufacture industrial chemicals.

This chapter will help you to consider:

1. compliance responsibilities you must face <sup>16</sup>
2. ways to manage these responsibilities
3. potential barriers to market you may face <sup>17</sup>
4. ways to overcome these barriers.

### Tax compliance

All businesses must pay tax. Plan in advance to meet your tax obligations based on your financial forecasts. Failing to comply with tax obligations can be the downfall of an otherwise successful business.

To avoid incurring any penalties and to help with your cash flow planning, you'll need to estimate what you expect to pay in taxes as part of your feasibility study.

All businesses pay income tax based on net profit. This is the income you've gained from the goods and services you sell less the expenses required to generate this income.

### Your first year in business is not tax free

Many people think that the first year in business is tax free. This is incorrect. If your business shows a profit at the end of your first year in business, you'll owe tax. However, exactly how much can only be accurately assessed once you or your tax agent have submitted your annual tax return.

So, although you may not be actually making tax payments on your profit during your first year, that year is still taxed. You'll have to pay this tax by 7 February in the following year or, if you have a tax agent, by 7 April. It's important to plan for this tax obligation.

Other taxes you may be required to pay will depend on the nature and structure of your business. There are four steps you should take.

1. Check with Inland Revenue which tax types you need to register for (such as GST, Fringe Benefit Tax, PAYE).
2. Register with Inland Revenue as soon as you decide to start trading.
3. Keep up-to-date, accurate records to ensure information stated on your returns is correct.
4. Avoid penalties by submitting payments and paperwork on time.

It's your responsibility to ensure that you pay all that you're obliged to. This makes it important to get professional advice and talk to Inland Revenue and an accountant about your specific tax obligations.

### Smart Business booklet

Inland Revenue's Smart Business (IR320) booklet offers an excellent introduction to tax compliance issues. To order a copy, phone 0800 377 774 or download it from the Inland Revenue website.

[www.ird.govt.nz](http://www.ird.govt.nz)

(Select 'Forms and guides' and search by title.)

### Paying provisional tax

If your untaxed income from the first year is \$2,500 or more, Provisional tax (a way of paying your income tax in installments through the year) will apply in your second business year. The amount you pay during the year is credited against your end-of-year tax to pay. Sole traders and partnerships (but not companies or trusts) may qualify for an early payment discount for voluntary tax payments during the first year in business. Contact Inland Revenue or your accountant to check if you qualify.

### Get free tax help

Look at paying tax as a positive thing – if you're paying a lot of tax, you're likely be generating a healthy income.

Inland Revenue's community relationship advisory staff can provide free tax education for small business owners.

To arrange an advisory visit, go to the Inland Revenue website.

[www.ird.govt.nz](http://www.ird.govt.nz)

(Select 'Businesses & employers', then 'Get it done online'.)

### *Advice and information on OSH regulations*

The Department of Labour is responsible for overseeing health and safety in New Zealand businesses and has a range of information, seminars and self-help tools available to help you determine the regulations with which you'll need to comply. Contact the Health and Safety Infoline on 0800 20 90 20 or visit the OSH website.

[www.osh.govt.nz](http://www.osh.govt.nz)

### *Find out more about ACC levies*

For more information about your ACC obligations, contact the ACC Business Service Centre on 0800 222 776 or visit the ACC website.

[www.acc.co.nz](http://www.acc.co.nz)

### *Review the key websites*

Review the Ministry of Consumer Affairs and Ministry of Economic Development websites for any relevant legislation with which you may need to comply.

[www.consumeraffairs.govt.nz](http://www.consumeraffairs.govt.nz)

[www.med.govt.nz](http://www.med.govt.nz)

### *Do you need resource consent?*

Resource consents can be costly and take some time to process. Be sure to clarify timeframes and prices well in advance. To find out how to facilitate this process effectively, visit the Ministry for the Environment website.

[www.mfe.govt.nz](http://www.mfe.govt.nz)

(Select 'Publications' then 'Resource management'.)

## **Occupational health and safety (OSH)**

As the business owner, it will be your responsibility to ensure that people (employees, customers, suppliers and other members of the general public) don't come to any harm in the course of doing business with you.

Workplace OSH regulations can be far reaching, complex and not always obvious. They could relate to anything from providing adequate facilities for the handling of hazardous goods through to workplace bullying.

## **Accident compensation (ACC)**

Even with sound management practices, accidents can and do happen.

To ensure that in the event of a work-related injury you or your employees receive weekly compensation and assistance with treatment or rehabilitation, you're legally required to pay annual ACC Workplace Cover levies. These levies will vary depending on your business type and turnover, and you'll need to factor them into your overall costs.

## **Complying with business legislation**

There is a range of government legislation of which you'll need to be aware and with which you'll need to comply as you go about your everyday business. For example, this includes:

- the Privacy Act 1993
- the Consumer Guarantees Act 1994
- the Fair Trading Act 1986
- the Employment Relations Act 2000
- the Companies Act 1993
- the Health and Safety in Employment Act 1992.

Talk to your advisors about any legislation that might affect your business.

## **Local authority compliance**

It's important to check your intended business activities with your local council or regional authority. Each area has its own particular rules and regulations around the types of business activity that are allowed within certain zones or areas. For example, if you're a panelbeater you're unlikely to get permission to operate a panelbeating business from your home garage.

It could well be that your business idea already meets required standards and regulations, but you must check. Note down every aspect of your business that you think might be governed by any type of regulation or guideline.

- Is your business potentially dangerous (such as building and construction, jet boating)?
- Will you need a licence (if you're planning to open a café, for example, and serve alcohol)?
- Does your building need a Building Warrant of Fitness or Certificate of Compliance?
- Will you need resource consent to operate in your chosen location?
- Can you operate from home, employ others at home, or work outside 'normal' business hours?
- Will you have to provide a certain number of car parks?

It's better to be overly cautious at this point than to find out later on that regulatory issues limit or impact severely on the feasibility of your business.



## Business insurance

In dealing with risk you usually have three choices.

- 1. Reduce the risk** – Use protection measures such as anti-virus software and robust back-up procedures, or take action to reduce safety hazards.
- 2. Transfer the risk** – Insure adequately against losses.
- 3. Accept the risk** – After weighing up the pros and cons you can choose to leave things to chance.

Be wary of the last option as it could put you out of business. Your insurance needs can be quite complex and include less obvious cover such as public liability insurance, so it's worth speaking to an insurance expert about your specific requirements.

If you can't afford to insure everything at first, at least insure against the major risks and make plans to extend your cover as soon as your finances improve.

## Planning to import or export?

If you're planning to import or export, there will be regulations and associated costs. You may be required to hold a permit to bring certain goods into New Zealand and face an import entry transaction fee.

Depending on what you plan to export, you may also need a permit and will be subject to lodgement and other compliance costs.

Other people may be able to offer possible solutions. Talk to people already in your industry or general business contacts about their experiences.

## Managing external factors checklist

Complying with regulations and finding ways to manage other external limiting factors are inevitable aspects of doing business. Make sure that you work through all these steps to help you identify any issues that might impact on the feasibility of your business.

- Investigate and identify relevant compliance/regulatory issues.
- Plan ways to manage your tax and other legal responsibilities.
- Check that you can afford to buy adequate insurance cover.
- Identify and address possible barriers to entry.

If you're confident that you can meet your business responsibilities, there are some further steps you can take to lower the risk of going into business.

## *Ask for details of a competent insurance broker*

Ask your business contacts for details of a competent insurance broker or visit the New Zealand Insurance Brokers Association website to find a broker near you.

[www.ibanz.co.nz](http://www.ibanz.co.nz)

## *Insurance company or insurance broker?*

Should you consult an insurance company or broker? The difference is that an insurance company generally sells only its own insurance products. A broker ideally offers a range of cover from a variety of suppliers.

## *New Zealand Customs Service information*

For more details on levies, duties, permits and other compliance requirements visit the Customs Service website.

[www.customs.govt.nz](http://www.customs.govt.nz)

## CHAPTER 5

# HOW TO LOWER THE RISK

### Complete the basics

Starting a business is always a risk, so it's important to make it a calculated risk. Completing the feasibility study to this point will have given you a clear idea of the potential for your business concept.

By this stage we presume you have:

- determined that there's a sustainable market for your product or service
- analysed your competitors and identified how you can protect your position
- checked that you can afford to set up and run your business
- identified and addressed the compliance issues and the barriers to entry.

This chapter will help you to lower the risk even further by showing you how to:

1. build your credibility
2. avoid the common pitfalls
3. focus on your critical success factors.

### Build credibility

From the moment you talk to others about your ideas and plans, people will start forming their opinions of you and your business. If they perceive any risk at all in dealing with you, they may be unwilling to support your business and remain instead with your competitors.

If you want to be taken seriously and create a favourable impression from the outset, make a conscious effort to start building your credibility in these three areas.

- 1. Customers must have confidence in you.** This means supplying value for money and proving that you'll deliver what you say you will. A simple step to building credibility is to gather positive customer feedback as quickly as possible and use this in all your promotional material, including your website. What others say about your business carries more weight than your own claims.
- 2. Suppliers must trust you.** Build trust by paying suppliers' bills on time and showing them you have the experience and ability to represent them well in the marketplace. Then (if they're well known) ask if you can place their logos on your promotional material to increase customer confidence.
- 3. Lenders and investors need confidence in you.** Keep your accounting up to date so that you can quickly produce the financial documents your lenders and investors need. Show you have good business systems in place and that you're monitoring key performance indicators.

Open and honest communications are the key to good relationships with all these stakeholders.

### Reduce or reverse the risk <sup>18</sup>

Why should a customer take the risk of dealing with a new business? Thinking about the risk of doing business with you from the customer's point of view demonstrates the power of reversing that risk. For example, a potential customer may worry that:

- your product or service will fail to do what you promise
- the product is not good value for money or may have quality issues
- you may not provide back-up, good service or spare parts
- you don't have enough experience to complete a project or contract.

Take some time now to list all the risks a customer might face. Then, for each risk, come up with a way to reduce the risk or reverse the risk. For example, can you guarantee your product?



Guarantees are an effective risk-lowering tactic, especially if you can come up with a better guarantee than your competitors'.

### Credibility tips

Here are some further ways to build credibility:

- **Always be professional.** You never know who could be a potential investor, customer or supplier, so behave like a credible business owner wherever you are.
- **Be consistent.** Review your customer research – where does your target customer place you in the marketplace? Ensure your image is aligned with your positioning.
- **Leverage your experience and profile.** Can you gain leverage from your (or your staff's) past experience and career profile? Promote the details in your marketing.
- **Choose your associates wisely.** If possible, use recognised suppliers and partners, and refer to them in your promotional and marketing material. Ensure your accountant, lawyer and other advisors are respected business professionals.

### Avoid the common pitfalls <sup>19</sup>

There will always be risks associated with running a business. Identifying and managing some of the common risks in advance can help to strengthen your chances of success.

Common pitfalls include:

- **Running out of cash.** Avoid this pitfall by preparing regular cash flow forecasts and implementing sound business systems, especially around credit management and debt collection. Remember that simply being good at what you do is not enough; you also need to manage your business competently. Get help from your accountant to identify the key performance indicators you need to monitor.
- **Failing to seek professional advice.** Starting a business can be a lonely experience, but it's neither necessary nor advisable to make all decisions on your own. Successful business people consult their advisors regularly.
- **Failing to prepare for mishaps.** The unexpected will happen, so ensure you have appropriate insurance and other cover for emergencies.
- **Neglecting your own health and wellbeing.** Starting a business can be very stressful, especially in the first years. Make sure you look after yourself as well as your business.
- **Falling behind.** It's important to keep up to date with economic and market trends, what your competitors are doing and the latest technology.

### Plan for the unexpected

Think about anything and everything that could possibly go wrong in your business.

Re-examine and review the assumptions you've made so far during your feasibility study.

Can you see any financial, compliance or operational risks that you've previously overlooked?

Some of the risks may seem a little extreme, but try running through a few 'what if?' scenarios, and consider the after-effects of these possible situations.

For example, could your new business survive if:

- a fire destroyed part or all of your premises?
- your computer were attacked by a virus?
- a key piece of machinery failed and would take at least a month to repair?
- your staff all went down with a virus and were off work for a week?

Brainstorm with friends and advisors some 'what if?' possibilities and ways you might deal with them.

### *Associate with the 'right' people*

Your credibility can be at risk through others. Make sure that you choose the right people to be associated with. The first business that you encounter may not necessarily be the best. If you have any doubts, ask to talk to some of its existing customers.

### Join business networks

Join a local business network or organisation such as the Chambers of Commerce. You can learn a lot from other members, plus receive up-to-date information and attend workshops on a range of topics. See your local directory/white pages for details of your nearest Chamber of Commerce.

### Your own health and wellbeing

Setting up and establishing a business is hard work. It's potentially all-consuming, especially in the early stages, so it's important that you're passionate about what you're doing. Some tips:

- Get the support of your family and friends and schedule regular time off.
- Accept that you'll have to do many 'boring' routine tasks yourself – especially in the early days.
- Avoid the mistake of thinking you're superhuman and that pure enthusiasm will carry you through. Nobody can consistently work 80 hours per week without serious consequences.
- To avoid isolation and burn-out, make sure that you have good support networks (business and personal) in place.
- Maintain your own professional development. Join professional or industry associations and attend relevant workshops to keep your own skills and knowledge up to date.

### Critical success factors <sup>20</sup>

It's important to identify then focus on the factors critical to the success of your particular business. They can be industry or business based.

For example, industry-based critical success factors could be:

- **retail** – location and foot traffic
- **manufacturing** – production and distribution channels
- **service** – knowledge and credibility
- **tourism** – location and visitor experience
- **agriculture** – production and distribution.

Business-based critical success factors could include:

- **volume** – the number of phone calls you receive, the number of sales leads generated or the number of people coming through your door
- **speed of service** – the efficiency of your staff and/or equipment or database systems
- **quality** – consistent product standards or friendly service.

Which of these factors will be critical to your success?

Finally, here are some critical factors for any business that are worth mentioning again:

#### Financials

Poor financial systems and procedures can be a major pitfall. There are steps you can take to lower the risk of financial difficulties.

- Keep your records up to date and monitor your key performance indicators. Pay particular attention to cash flow.
- Avoid giving excess credit and collect debts promptly.
- Avoid overextending your business (trading beyond your financial limits).
- Avoid overstocking as money tied up in stock is unproductive.
- Avoid under-pricing or discounting. Periodically check your costing and pricing.
- Resist requests from friends and family to provide goods or services at a discount or for free.
- Ask suppliers if you can buy on consignment (only pay for the goods once you've sold them).
- Build good relationships with suppliers so you can ask them for extended credit terms if you face a cash crunch.



### Changes in the marketplace

Keep your eye on what's happening in the marketplace. This needs to be done on a regular basis. Failing to keep up to date with current trends can expose you to unnecessary risks such as:

- unforeseen changes in domestic or overseas regulations, which may affect your channels to market
- rapid technological advancements, which may raise customer expectations around service delivery
- your 'expertise', which may be surpassed by others.

Being well informed reduces the risk of unwelcome surprises and gives you a better opportunity to develop any necessary contingency plans.

### Lower the risk checklist

When you're in business, it makes sense to lower the risk to all involved as much as possible. To make sure that you've considered ways to minimise your risks effectively, take these steps before making your final assessment.

- Plan tactics to build your credibility.
- Identify ways to reduce or reverse the risk to the customer.
- Consider ways to avoid major pitfalls.
- Identify critical success factors for your business.

Congratulations on completing your feasibility study. If you've persevered to this point and worked through all the steps in this feasibility study, it's likely that you have a feasible business idea.

If you've now determined that your business idea is worth pursuing, you'll need to start planning how you're going to make everything happen.

### Time to write a full business plan

The final step of your feasibility study is to complete a more detailed business plan. This serves two purposes:

1. Any person or organisation (such as the bank) you approach for help or funding will want to see a full business plan, including a set of financial documents and forecasts.
2. Preparing a business plan helps you to sharpen your ideas and possibly review or refine certain aspects. It can also help to identify gaps in your planning or thinking that you can address.

Good luck with your business.

### *Planning for Success*

NZTE's free publication, *Planning for Success*, will help you to develop a road map for your business. It provides information and templates covering areas such as preparing your business profile, developing your marketing plan, choosing your team, e-commerce, exporting, manufacturing, business structures and compliance. To order a copy, phone biz on 0800 424 946.

# BUSINESS RESOURCES

## New Zealand Trade and Enterprise

New Zealand Trade and Enterprise (NZTE) is the Government's national economic development agency. It works to stimulate economic growth by helping to boost export earnings, strengthen regional economies and deliver economic development assistance to industries and individual businesses.

NZTE provides information and resources to help businesses, industries and regions to develop and grow. Visit [www.nzte.govt.nz](http://www.nzte.govt.nz) for details about its services, including the following business development services that are relevant to start-ups.

### **biz**

The biz service is a specialist business information and referral service for small to medium businesses delivered through a freephone service.

The service will help you to identify organisations, people, training programmes and resources to help you develop your business, plus provide you with contacts and information on government and non-government services. Services include:

- information on training that may be offered in your area, such as start-up workshops
- important information on regulatory issues, including taxes, ACC, workplace safety and employing staff
- free publications and other resources for start-up businesses.

To find out more about biz phone on 0800 424 946 or see [www.nzte.govt.nz/biz](http://www.nzte.govt.nz/biz).

### **business.govt.nz**

Managed and maintained by NZTE, [www.business.govt.nz](http://www.business.govt.nz) is the New Zealand Government's business site. Designed to promote good business practices and make it easier for New Zealanders to do business, it offers information plus links to useful tools and resources to help you start, manage or grow your business.

### **E-business Guide**

The online E-business Guide provides advice, at no charge, to businesses wanting to use the internet and online technology to boost their businesses.

Information in the guide is presented in the form of 'learn as you go' activities so that you can progressively develop your e-business capability. An advisor is also available to talk you through the various stages.

To find out more, see [www.nzte.govt.nz/ebusiness](http://www.nzte.govt.nz/ebusiness)

### **Investment information**

#### **Escalator service**

Escalator helps qualifying New Zealand businesses to get investment ready. Principally, and depending on the level of support applicable to each qualifying business, the Escalator service offers:

- assessment and advice on investment readiness for a business or entrepreneurial opportunity
- deal preparation and deal broking
- investment-specific workshops
- helpdesk and online information (freephone 0800 822 748, email [info@escalator.co.nz](mailto:info@escalator.co.nz) or see [www.escalator.co.nz](http://www.escalator.co.nz)).

## Other government assistance

### Compliance and regulatory issues

#### ACC

For information on WorkPlace Cover, levies and workplace safety management practices, visit [www.acc.co.nz](http://www.acc.co.nz) or contact the ACC Business Service Centre on 0800 222 776.

#### Department of Labour – Health and Safety section

For best practice information and advice relating to health and safety in the workplace, visit [www.osh.govt.nz](http://www.osh.govt.nz) or call the Workplace Employment Relations and Health and Safety Infoline on 0800 20 90 20.

#### Inland Revenue

Inland Revenue's community relationship advisory staff can provide free tax education for small business owners. To arrange an advisory visit, go to [www.ird.govt.nz](http://www.ird.govt.nz), select 'Businesses & employers', then 'Get it done online'.

Inland Revenue's booklet Smart Business (IR320) offers an excellent introduction to tax compliance issues. To order a copy, phone 0800 377 774 or download it from the Inland Revenue website [www.ird.govt.nz](http://www.ird.govt.nz) (select 'Forms and guides' and search by title).

### Intellectual property

#### Intellectual Property Office of New Zealand (IPONZ)

IPONZ provides information and online search facilities regarding patents, trade marks and designs. Visit [www.iponz.govt.nz](http://www.iponz.govt.nz) to search the registers or access the information library.

#### New Zealand Companies Office

Visit [www.companies.govt.nz](http://www.companies.govt.nz) to conduct a free online company name register search or to reserve a company name.

#### New Zealand Customs Service

The New Zealand Customs Service provides assistance to ensure businesses meet customs requirements. For information, advice or clarification, visit [www.customs.govt.nz](http://www.customs.govt.nz) or contact the Customs National Call Centre on 0800 428 786.

#### Te Puni Kokiri – Ministry of Māori Development

Te Puni Kokiri can help Māori businesses to identify potential funding sources and provide a mentoring service that offers advice, guidance and facilitation services essential to developing a new or existing business. Visit [www.tpk.govt.nz](http://www.tpk.govt.nz) or call in to one of its regional offices for more details.

### Work and Income

To find out if you qualify for financial assistance from Work and Income to start your own business, visit [www.workandincome.govt.nz](http://www.workandincome.govt.nz) or freephone 0800 559 009.

## Research sources

Department of Labour – [www.dol.govt.nz](http://www.dol.govt.nz)

Ministry of Economic Development – [www.med.govt.nz](http://www.med.govt.nz)

Ministry of Foreign Affairs and Trade – [www.mfat.govt.nz](http://www.mfat.govt.nz)

Foundation for Research, Science and Technology – [www.frst.govt.nz](http://www.frst.govt.nz)

### Crown research institutes

AgResearch – [www.agresearch.co.nz](http://www.agresearch.co.nz)

Crop and Food Research – [www.crop.cri.nz](http://www.crop.cri.nz)

HortResearch – [www.hortresearch.co.nz](http://www.hortresearch.co.nz)

Industrial Research Limited – [www.irl.cri.nz](http://www.irl.cri.nz)

Institute of Environmental Science and Research Limited – [www.esr.cri.nz](http://www.esr.cri.nz)

Institute of Geological and Nuclear Sciences Limited – [www.gns.cri.nz](http://www.gns.cri.nz)

Manaaki Whenua Landcare Research New Zealand Limited – [www.landcareresearch.co.nz](http://www.landcareresearch.co.nz)

National Institute of Water and Atmospheric Research – [www.niwa.co.nz](http://www.niwa.co.nz)

New Zealand Forest Research Institute Limited – [www.scionresearch.com](http://www.scionresearch.com)

### Ministry for the Environment

The sustainable industries group offers a useful web portal providing practical advice and information on sustainable business practices. Visit [www.mfe.govt.nz](http://www.mfe.govt.nz)

### Statistics New Zealand

Statistics New Zealand offers useful demographic and other research information (including customised data) that can help you to make better marketing and business planning decisions. Visit [www.stats.govt.nz](http://www.stats.govt.nz) or phone 0508 525 525.

## Other useful contacts and websites

### Business incubators

For information on your nearest business incubator, visit [www.incubators.org.nz](http://www.incubators.org.nz)

### Chambers of Commerce

Chambers of Commerce and Industry offer valuable help to members and provide opportunities to network with local and overseas business people. For details of your nearest Chamber, see your local directory/white pages.

### Economic Development Agencies of New Zealand

To find your local Economic Development Agency, visit [www.edanz.org.nz](http://www.edanz.org.nz) and select 'About EDAs'.

### Energy efficiency

Visit [www.emprove.org.nz](http://www.emprove.org.nz) for tips on how to make your business more energy efficient.

### Industry or professional associations

Investigate what your specific industry or professional association can offer you. To find relevant associations, visit [www.business.govt.nz](http://www.business.govt.nz) and select 'Business & industry contacts'.

**Insurance Brokers Association of New Zealand**

Review [www.ibanz.co.nz](http://www.ibanz.co.nz) for tips on different types of insurance or to find an insurance broker.

**Market Research Society of New Zealand**

Visit [www.mrsnz.org.nz](http://www.mrsnz.org.nz) for details of an online directory of market research companies, plus useful information on writing a market research brief.

**New Zealand Law Society**

Visit [www.nz-lawsoc.org.nz](http://www.nz-lawsoc.org.nz) for online directories and web links to help you to find a lawyer.

**New Zealand Public Libraries**

Visit [www.nzlibraries.com](http://www.nzlibraries.com) for details of all New Zealand public libraries.

**Regional and city councils**

Visit [www.localcouncils.govt.nz](http://www.localcouncils.govt.nz) for contact details for your local regional and city councils.

**Business NZ**

Business NZ champions manufacturing issues at the national level, covers important issues and provides survey information, visit [www.businessnz.org.nz](http://www.businessnz.org.nz). Also see [www.emacentral.org.nz](http://www.emacentral.org.nz) and [www.ema.co.nz](http://www.ema.co.nz)

**New Zealand Venture Capital Association**

The New Zealand Venture Capital Association's website offers news about what's happening in the venture capital field. [www.nzvca.co.nz](http://www.nzvca.co.nz)

**Free publications from NZTE**

Free books published by NZTE can be ordered from the biz service by phoning 0800 424 946.

*Planning for Success: Helping you develop your own business plan.* The book offers comprehensive details of what should go into a good business plan and includes templates that will help you to build a complete picture of your business and where it's heading.

*Investment Ready Guide: Your essential guide to options for growing your business and to obtaining seed, start-up and development capital.* This publication is available free as part of the Escalator service introductory pack. Visit [www.escalator.co.nz](http://www.escalator.co.nz) or freephone 0800 822 748 for details.

**Other publications**

Rust, Craig. *Where's the Money?* Enterprise Publications: Christchurch (2005).

Sibbald, Peter. *Slash your Compliance Costs.* Reed Publishing: Auckland (2005).

Holden, Gregory. *Starting an Online Business for Dummies.* Wiley Publishing (2007).

English, John and Oliver, Leith. *The Small Business Book.* Allen & Unwin (2007).

Higham, Richard and Williams, Sara. *The New Zealand Small Business Guide.* Penguin: Auckland (2007).

### Magazines and online publications

*Franchise New Zealand*: Published quarterly, each issue contains details of franchise and business opportunities. See also the related [www.franchise.co.nz](http://www.franchise.co.nz) website.

*New Zealand Business*: Targeted at small to medium-sized businesses, this magazine features articles on news-making companies and executives. [www.nzbusiness.co.nz](http://www.nzbusiness.co.nz)

*Unlimited*: This New Zealand periodical has a distinct focus on the new economy. It's a useful resource for businesses pursuing e-commerce opportunities and looking to make innovation a part of their operations. [www.unlimited.co.nz](http://www.unlimited.co.nz)

*Her Magazine*: This publication focuses on women in small business in New Zealand and offers useful tips, articles and networking opportunities. [www.herbusinessmagazine.com](http://www.herbusinessmagazine.com)

*Inc*: An American magazine devoted to growing companies. Features inspiring stories and useful articles. The online version of the magazine at [www.inc.com](http://www.inc.com) is also worth a visit.

*Entrepreneur*: Another American magazine that has an informative section on money, technology, management and marketing. Its website [www.entrepreneur.com](http://www.entrepreneur.com) offers tools not available in the printed version.

*Start-up.co.nz*: An online business portal that specialises in providing news, information and resources to aspiring online entrepreneurs and online startup companies. The Start-up.co.nz websites includes the latest information on exporting, funding, web development, software, hardware, telecommunications, and business development.

# GLOSSARY

## **ANNUAL RETURN**

A return that companies are required to file with the Companies Office, recording company details and changes (such as director or shareholding changes).

See [www.companies.govt.nz](http://www.companies.govt.nz) for details.

## **BRIDGING FINANCE**

Usually a short term or temporary loan (often at higher interest rates) used to bridge a gap, such as a cash flow shortage, until the situation eases or other finance is secured.

## **BUYING ON CONSIGNMENT**

Consignment stock is stock supplied to a business under the arrangement that the stock remains the property of the supplier. The business only has to pay for each item of stock when it is sold or used. It is important to clarify which party is responsible for insuring the stock.

## **CAPITAL INJECTION**

Money invested at any stage in your business by you or other investors.

## **CHANNELS TO MARKET**

Ways of getting your products or services to customers, such as online selling, retail sales, distribution agreements or licensing deals.

## **DEPRECIATION**

The amount deducted annually from the value of fixed assets to account for wear and tear. Inland Revenue sets the annual depreciation rate for different asset classes, such as vehicles or computers. See [www.ird.govt.nz](http://www.ird.govt.nz) for depreciation tables.

## **DIRECT LABOUR COSTS**

Any labour costs such as wages relating directly to your product manufacture or service delivery, such as a retail sales assistant, a builder's apprentice or a machine operator. An indirect labour cost would be the reception person (as it is difficult to allocate their time to a particular product or job).

## **DIRECT MATERIAL COSTS**

All the costs of materials incurred preparing your products or services for sale. For example, a boat-builder's material costs might include wood, fibreglass, and fittings.

## **DISTRIBUTION COSTS**

Costs such as tariffs, storage or freight costs associated with getting your product or service to market.

## **DISTRIBUTORS**

Businesses, usually with wider-reaching connections or contacts than you have yourself, that on-sell your products to wholesalers, retailers or consumers.

## **DRAWINGS**

Money you withdraw from your business for your personal use. This is quite separate from any wages or salaries you may pay yourself that have PAYE deducted.

## **FIXED ASSETS**

Any business asset that lasts longer than 12 months, such as machinery, a building, office furniture, vehicles, a website, computers and software.

## **FRANCHISE**

An existing set-format business that you can buy or rent the rights to operate within a certain area or territory and timeframe. You must usually run your business according to the pre-set franchise methods. There will typically be ongoing royalties or other fees to pay in return for business support such as training, advertising and promotions.

## **GOODS AND SERVICES TAX (GST)**

The Goods and Services Tax is a tax on most goods and services in New Zealand. Any business with a turnover of \$40,000 in the last 12 months, or an expected turnover of \$40,000 in the next 12 months must register for GST and add GST to all taxable activities (goods or services sold). A GST registered business must submit GST returns and can claim the difference between GST paid for supplies and services received, and the GST it charges on its sales. Businesses with a turnover of less than \$40,000 can choose to register for GST. Advice from an accountant can help you make this decision.

## **JOINT VENTURE**

A venture where two businesses or organisations form a partnership with the purpose of working together, usually on a particular project. For example, a cycle shop joins together with the local council to run an annual cycling event (see also Strategic alliance).

## **KEY MONEY**

Money paid in advance to secure a tenancy or lease business premises. Often paid to ensure that no-one else takes a desirable space.

**LICENCE**

An agreement for a third-party business or person to manufacture or sell particular products or services, according to pre-specified conditions. For example, you decide to license another business to sell your products, or secure a licence to sell someone else's product.

**MARGIN/PROFIT MARGIN***Gross margin*

The amount remaining after the direct costs of producing your goods or services have been deducted from sales revenue generated. The figures are usually expressed as a percentage, for example an item that costs \$10 to produce and sells for \$20 has a 50 percent gross profit margin.

*Net margin*

The amount remaining after the direct costs plus general overheads (cost of running your business regardless of sales levels) have been deducted from sales revenue generated (see also Overheads).

**MARK-UP**

The amount a business adds to the cost price of a product or service. The mark-up figure is often calculated or expressed as a percentage. For example, if you buy a product for \$15 and charge customers \$45, the percentage mark-up is 200 percent (\$45 less \$15 equals \$30 and \$30 is 200 percent more than what you paid for it).

**OVERHEADS**

The term used to describe the everyday, ongoing costs of running a business regardless of sales levels. For example, office expenses, wages, rent, power and phone costs.

**RESELLERS**

Businesses that buy products and services and usually mark-up the prices before selling them on to customers. As resellers buy the goods outright, they do have the option to discount prices if they choose.

**ROYALTIES**

An agreed amount paid to a person or business that holds the copyright or patent on a product or idea. Royalty payments are usually based on a percentage share of unit sales.

**SALES AGENTS**

Any person or business selling your product or service on your behalf. Often they are paid on a commission basis.

**STRATEGIC ALLIANCE**

A longer-term partnership or agreement between your business and other individuals or businesses to collaborate on a shared strategic goal (see also Joint venture).

**WHOLESALEERS**

People or businesses who buy your goods and services to on-sell to retailers or other business users. Although they may have a 'retail outlet', they are unlikely to sell directly in large quantities to the end consumer.

## TEMPLATE 1 - PERSONAL AIMS

Briefly outline what you hope to achieve by going into business

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## TEMPLATE 2 - DESCRIBE YOUR BUSINESS IDEA

Briefly describe your business idea (including size and scope)

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## TEMPLATE 3 - BUILDING CUSTOMER PROFILES

Photocopy this template and build a profile for each customer type or market segment. Note down any defining characteristics such as age, gender, location, interests or, for an organisation, industry, size, location

Customer description:

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Customer description:

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Customer description:

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**TEMPLATE 4** – PREPARE A MARKET RESEARCH PLAN

Research method	Action to take	By whom	Budget	Deadline
Customer questionnaires				
Email survey				
Focus groups				
Form on website				
Internet search				
Study competitors				
Telephone survey				

**TEMPLATE 5** – CHANNELS TO MARKET

How do you intend to get your product or service to market (e.g. through a retail outlet, wholesaler or online)?


**TEMPLATE 6** – INFLUENTIAL INDUSTRY AND MARKET TRENDS

List any influential trends and note how they might impact on your business's feasibility


**TEMPLATE 7** – COMPETITOR ANALYSIS

Prepare an analysis sheet for each of your competitors. Include any additional comparisons relative to your business

Business name	Location	Products/ services	Positioning	Prices	Key competitive advantage	Other critical factors



**Office costs**

Computer equipment	\$
Furniture and fittings	\$
Software	\$
Stationery	\$
Telephone	\$
	\$
	\$
	\$
	\$
<b>Sub total</b>	<b>\$</b>

**Stock**

Raw materials	\$
Retail stock	\$
	\$
	\$
	\$
	\$
	\$
	\$
<b>Sub total</b>	<b>\$</b>

**Promotion costs**

Advertising	\$
Brochures	\$
Direct mail	\$
Promotional activities	\$
Public relations fees	\$
Signage	\$
Website	\$
Directory advertising	\$
	\$
	\$
	\$
<b>Sub total</b>	<b>\$</b>

**Other**

Advisor fees (e.g. consultant charges, accountant fees)	\$
Licence fees	\$
Training costs (e.g. polytechnic course fees)	\$
	\$
	\$
	\$
<b>Sub total</b>	<b>\$</b>
<b>Total set-up costs</b>	<b>\$</b>

## TEMPLATE 11 – CALCULATE WORKING CAPITAL REQUIREMENTS

List your estimated monthly fixed costs to work out the amount of working capital you'll ideally need

### Fixed costs (everyday expenses)

Advertising	\$
Electricity	\$
Freight	\$
Hire purchase payments	\$
Insurance	\$
Loan repayments	\$
Packaging	\$
Payments to subcontractors	\$
Postage, printing, stationery	\$
Rent, rates, additional lease payments	\$
Repairs and maintenance	\$
Telephone - incl. cell phones etc	\$
Wages	\$
Other	\$
<b>Total</b>	<b>\$</b>

## TEMPLATE 12A, B & C

Using the examples on pages 16 and 17 decide which pricing method is the most suitable for determining costing and pricing for your products or services. Once you have determined the most appropriate method use the applicable template below to calculate costing and pricing for your product or service.

### TEMPLATE 12A – COST-PLUS

Raw materials	\$	
Freight	\$	
Packaging	\$	
Labour	\$	
Other	\$	
<b>(A) Total cost</b>	<b>\$</b>	(sum of above)
(B) Add required margin per product	\$	
<b>(C) Selling price excluding GST</b>	<b>\$</b>	<b>(A+B)</b>
(D) Plus GST	\$	(Cx12.5%)
<b>(E) Selling price including GST</b>	<b>\$</b>	<b>(C+D)</b>

## TEMPLATE 12B – JOB CARD

### Materials: (list below)

1.		\$	
2.		\$	
3.		\$	
4.		\$	
5.		\$	

**(A)** **Total cost of materials** \$ (sum of above)

### Direct labour and overheads:

(B) Cost of labour (per hour) \$ per hour

(C) Cost of overheads (per hour) \$ per hour

**(D) Hourly cost of labour and overheads** \$ per hour **(B+C)**

(E) Number of hours required to produce item hours

**(F) Total cost of labour and overheads** \$ **(DxE)**

**(G) Total cost per item** \$ **(A+F)**

(H) Mark-up % of cost \$ (multiply mark-up percentage x total G)

**(I) Selling price excluding GST** \$ **(G+H)**

(J) Plus GST \$ (I x 12.5%)

**(K) Selling price including GST** \$ **(I+J)**

## TEMPLATE 12C – HOURLY CHARGE-OUT RATE

(A) Desired income \$ (How much money do you want to earn for yourself?)

(B) Annual overheads \$ (The total costs of running your business excluding direct job costs.)

(C) Profit margin required \$ (To allow for ongoing business and professional development costs.)

**(D) Total income required** \$ **(A+B+C)**

(E) Number of hours available to charge out per annum hours (Make sure you deduct annual leave, public holidays and administration and selling time.)

**Charge-out rate excluding GST** \$ **(D/E)**

Plus GST \$

**Charge-out rate including GST** \$ **(D/E)+GST**

## TEMPLATE 13 – PREPARE A CASH FLOW FORECAST

Copy the template below and prepare a cash flow forecast for pessimistic, realistic and optimistic scenarios. Make sure you note whether your figures include GST.

Year ended :

<b>Cash receipts</b>	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	<i><b>Total year</b></i>
Cash sales													
Cash received from debtors													
Other revenue													
Capital injections													
Loans received													
Tax refunds													
Other cash received													
<b>(A) Total cash receipts</b>													
<b>Less cash payments</b>													
Stock/Raw materials													
Direct wages													
Commissions paid													
Other direct costs													
Promotions													
Freight													
Royalties													
Insurance													
Lease costs													
Power													
Rent/Rates													
Repairs and maintenance													
Salaries													
Stationery													
Sundries													
Telephone													
Travel													
Vehicle expenses													
Other admin expenses													
Bank charges													
Internet													
Drawings													
Purchases of fixed assets													
Repayment of loans													
GST payments													

Income tax payments																			
Other																			
<b>(B) Total cash payments</b>																			
<b>(C) Net cash flow (A-B)</b>																			
<b>(D) Opening bank balance</b>																			
<b>CLOSING BANK BALANCE (C+D)</b>																			

## TEMPLATE 14 - POTENTIAL CASH FLOW RISKS

List any potential cash flow risks to assist you with your planning and financial forecasting


## TEMPLATE 15A & B

Calculate the necessary level of sales for your business to survive using the applicable calculation below.

### TEMPLATE 15A - BREAKEVEN CALCULATION (UNIT MARGIN)

Calculate the necessary level of sales based on the profit on a product. This method can also be used when you charge out by the hour

(A) Total fixed annual expenses (such as rent, wages, electricity) \$

(B) Profit on each item sold (or hour worked) \$

(C) Required sales level - units per year (divide by 52 for weekly)  Units (or hours) (A/B)

### TEMPLATE 15B - BREAKEVEN CALCULATION (MARK-UP PERCENTAGE)

Calculate the necessary level of sales based on profit margin as a percentage

(A) Total fixed annual expenses (such as rent, wages, electricity) \$

(B) Average profit margin percentage on products sold  %

(C) Required sales level per year (divide by 52 for weekly) \$  (A/B)













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