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THE RED DOOR CONCEPT

RED DOOR:

R-REAL
E-ENTERPRISE
D-DEVELOPMENT

WHAT IS IT?

The RED Door is a one-stop shop where new and existing businesses are able to access a single point to seek assistance. Expert, friendly and supportive staff at the RED Doors will support clients in the step-by-step process of business advice for all requirements, whether basic or highly sophisticated. The entrepreneur will be guided through his/her business journey ensuring that optimum success is achieved.

WHY THE RED DOOR PROJECT?

In South Africa small business development initiatives have often been fragmented with considerable duplication of support services. Not only are these services limited in variety, but they are available only in certain areas and non-existent in many rural areas. The survival rate of small businesses in South Africa does not compare favourably to that in similar developing countries. In addition, research shows that entrepreneurial activity within existing small businesses is not at desired levels. These and many other challenges, e.g. broad-based black economic empowerment, have prompted the establishment of the RED Doors.

THE RED DOOR PROJECT AIMS TO:

- build new businesses in all areas;
- strengthen and develop existing new businesses, and
- broaden the ownership base of black business.

WHAT DOES THE RED DOOR PROJECT OFFER?

Clients will enjoy the following services:

- Assistance with business plan writing and training
- Facilitation of access to finance
- Basic business training
- Access to a support network of business service providers
- Referrals to accounting and legal service providers
- Business skills training
- Tender information, advice and training
- Internet access
- Access to government information and business incentives
- Opportunities to showcase products and services
- Import and export advice
- Assistance with client relations, marketing and research
- Availability of small conferencing facilities
- Access to mentorship programmes
- Business library facilities
- Business linkages support

HOW DOES THE RED DOOR SERVICE BENEFIT YOU AND YOUR COMMUNITY?

The RED Door service provides the following:

- Easy accessibility – close to communities
- Individual attention
- Quick analysis of business needs
- Quality and reliable advice for start-up and existing businesses
- Lower-cost services
- Business support services
- A central point to access Government business support
- Skills and capacity-building for entrepreneurs
- Early warning system for SMME business failure
- Community entrepreneurship outreach programmes to the youth, women entrepreneurs, emerging farmers, people with disabilities, etc.

HOW ARE SERVICES DELIVERED?

- In all 3 languages
- At two educational levels
- By means of a well-mapped plan of action for individual needs

INTRODUCTION

Many people dream of owning and running their own business and, despite the risks, growing numbers are taking the big step towards realising that dream. However, with careful planning the risks can be significantly reduced.

We compiled this work pack to help you reduce the risk of failure. It is not a total solution and is not a substitute for good, professional advice. However, it is a useful checklist and a summarised guide of important aspects you need before taking that big step. This guide offers you a checklist for each stage of starting your own business and will help you assess the viability of your business idea.

If you do decide to go ahead, the work you have done will enable you to have a more focused, business-like approach. A comprehensive business plan will help you in your dealings with banks, investors and state agencies.

Remember one key point: stay within your area of expertise. If carpentry is your strength, then starting up a computer business is probably not a good idea. As a first step, take time to complete the checklist on entrepreneurship, and then take time to list your key areas of knowledge and expertise. Review it a few times to make sure that nothing has been left out and that you have been realistic and not blinded by optimism.

We sincerely wish that this guide will assist you and wish you all the best in your business venture!!

USING YOUR WORK PACK

The work pack breaks the process of starting your own business up into logical steps. Each step is a section on its own. Work through the sections in sequence – completing each one before moving on.



ARE YOU AN ENTREPRENEUR?

To assess whether you will be able to cope with the demands and challenges that lie ahead, check yourself against the following list of qualities that are typical of the successful entrepreneur.

Do you have:

- a high degree of drive and energy?
- a high level of self-confidence?
- the capacity for long-term commitment?
- independence, initiative, and the ability to be innovative?
- integrity and reliability?
- the ability to set clear goals?
- the ability to cope with uncertainty?
- a high level of determination to solve problems?
- enthusiasm for taking moderate but challenging risks?
- the ability to accept failure as part of the learning process?
- a thorough knowledge of the proposed business?
- an awareness of the need to make use of experts?

Work through the list, evaluate your own qualities and ask yourself whether you are truly equipped to face the demands of starting your own business. This is a very important exercise, so it may be a good idea to discuss this list with your family or a close friend. You should try to be as objective and honest as possible.



KNOWING WHAT YOU WANT

All behaviour is motivated. The question is: “By what?” And this is a question you have to answer yourself before going any further. Why? Because running your own business involves responsibility, risk and potential reward. The responsibility and risk will not be worth the effort if the business does not give you what you want. Results can take time to achieve and delays may cause you to become demotivated. But remember, strong self-motivation is fundamental to business success.

So take time to think through what you really want from your own business. For instance:

- Is it personal wealth?
- Is it status?
- Is it a future for your family?
- Is it the freedom to be your own boss and make your own decisions?
- Is it that you simply have a good idea and know you can make it work?

Whatever it is, make a list. Prioritise it and refer to it whenever making a decision – to make sure that each one will contribute to giving you what you want.

Remember, too, that others who may lend you money or take a share in your venture, will want information about the motivating factor behind your decision to set up this particular business.

ASSESSING YOUR BUSINESS IDEA

Many entrepreneurs who start their own businesses stand to lose most of their possessions should the business fail. A feasibility study cannot guarantee that you will succeed, but it can help you understand exactly what you are letting yourself in for.

The main reason why most small businesses fail is management incompetence. This incompetence is normally a result of inexperience with regard to marketing, financing, purchasing and production.

In order to minimise the chances of failure, bear the following in mind:

- Do not fall blindly in love with your business idea.
- Do research to prove there is a big enough demand for your product.
- Seek expert advice before you start your business.
- Do not underestimate your financial requirements when starting a new business.
- Consider the competition before you start your business.
- Make sure that your product is different from that of your competitors and that customers will be aware of this.
- Make sure that you are aware of all laws affecting your type of business.

Work through the following checklist:

- Define your business carefully.
- How big is the market? Is the market growing, static or declining?
- List all the factors for success (e.g. good location, low price, high quality)
- Analyse the situation:
 - (a) by listing your strengths and weaknesses in comparison with your competitors, and
 - (b) by listing all the obvious market opportunities and threats.
- List the advantages you have over your competitors.
- List advantages that your competitors have over you.
- List ways of using your advantages to your benefit.
- List how you will deal with the disadvantages you face.
- Roughly estimate your returns (profit) and compare them against estimated costs.
- List what must be done, when it must be done and how it must be done, paying special attention to marketing, manufacturing, financing and administration.

If the business still looks viable, move on to a more detailed study.

KNOWING YOUR BUSINESS

Make sure that you know exactly what business you are in. Only by precisely defining your idea will you be able to stay focused on your core business. You will also need this definition to identify your market and your competitors.

Keeping your eye on the ball is as important in business as it is in sport. New businesses fail or suffer unnecessary setbacks if their owners stray away from their original idea into areas in which they have less expertise or knowledge. As a result, they spread themselves too thinly and increase the risk of failure.

Define your business as precisely as you can by preparing detailed answers to the following questions:

- Exactly what product or service will I be supplying to my customers?
- Will I be supplying it myself or through others i.e. partners, employees or distributors?
- Will I be a manufacturer? ... an assembler? ... a distributor? ... a service provider?
- Will I be going into business as a franchise?
- Am I buying an existing business or company or am I starting up a new one?

Bring your answers together to create a precise and comprehensive definition of your new business idea.

Example:

- *I will be in the computer service business, supplying a personal, on-site, colour-printer repair service.*
- *I will be in the hospitality business, supplying creative, pre-prepared desserts made by myself to pubs, guesthouses and small hotels.*
- *I will be in the retail outlet support services business, supplying computer systems – designed and programmed by myself and installed on existing hardware – that control stock and re-ordering level*



HOW TO RESEARCH YOUR MARKET

No business can survive without sales. So before starting out, you need sufficient proof that your product or service will sell, that the potential market is large enough and that there will be a reasonable long-term demand for your product.

The first priority will be to establish a marketing plan, but for this you need to know how to conduct a market research analysis. You will need to know the following:

1. What is the size of the market?
2. What is my likely share of the market?
3. What are the really important product features?
4. How do I go about pricing, promoting and distributing my product?

Your research must be done on two main aspects: firstly, your industry (e.g. computers, motorcars, etc.) and secondly, your market (e.g. used-car buyers).

1. Researching your industry - Complete the following questionnaire:

- What is the industry's main activity?
- How large is the industry?
- How long has it been established?
- What are the current trends (e.g. increased use of computers)?
- How competitive is it (is there much competition)?
- Do barriers to entry exist (e.g. high capital costs, strict licensing)?
- What risks are related to the industry?
- What are the legal considerations (e.g. laws affecting your type of business)?

2. Researching your market - Complete the following questionnaire:

- What is the approximate size of the total market?
- Who are my likely customers? Describe them in terms of age, sex, income group, level of education, location and cultural differences.
- What do customers consider to be important when buying? Is it price, product appeal, service provided, etc.?
- How many similar products or services are available?
- Who are my major competitors in terms of price and product quality?
- How much do I really know about my competitors?
- What are the strengths and weaknesses of my competitors and how will I deal with it?
- Is it possible that I can compete on price (e.g. selling at a lower price) or provide better value for money (e.g. packaging, delivery) - or both? What methods will I use to distribute my product or service?

3. Researching your competitors

To gather information on competitors is neither expensive nor time-consuming.

Low-cost ways in which to gather information include the following:

- Reading business magazines and the business sections of daily newspapers.
- Questioning the customers of your top three competitors.
- Buying the products of your competitors to examine their quality, pricing, etc.
- Visiting trade shows or exhibitions and manufacturers.

FINANCING YOUR BUSINESS

You will almost certainly need finance to bring your new idea to the marketplace and to grow and develop your new business. You need to do a financial feasibility study before committing any resources to your business idea.

A financial feasibility study will help you to determine:

- whether the business will show a profit;
- how much money you will need to invest in the business;
- how much money you will need to borrow;
- what the operating or running costs will be;
- how much you must sell to cover your costs;
- what the cash flow will be, and
- whether the expected profit is worth your while given the risks involved.

The two main types of costs you need to consider are the following:

1. Establishment /Start-up costs

- Legal services (e.g. contracts)
- Machinery and equipment
- Stock
- Market research
- Provision for operating costs for at least six months (e.g. salaries, advertising, rental)

2. Budgeted operating/running costs

- Salaries and wages
- Rental of premises and equipment
- Municipal services, e.g. water and electricity
- Insurance
- Advertising
- Telephone, stationery, postage, etc.



OBTAINING FINANCE

• Simple presentation

In raising money for a small business, you need to make a quick, simple presentation to a lender.

You need to show:

- why the business is sound or why your idea will work;
- how much money you need;
- when the money will be paid back, and
- what security you can offer.

• Providing figures

If your business is up and running, submit your latest annual and/or monthly income statement sheets. If your business is a sole proprietorship or a partnership, you may have to personally guarantee any loan. In that case, submit a statement showing your personal net worth (assets less liabilities). Also, you should provide a cash flow projection indicating when borrowings will be repaid.

• Playing the part

The financier's opinion of your capability and trustworthiness will be a major factor in the bank's (or any lending institution's) loan decision. Appear relaxed and confident about your business prospects. If you are seeking funding for a relatively new business, include a résumé (list) of your previous accomplishments in your presentation package.

• Customising your presentation

Appeal to the needs of the person you are approaching for money. If you are seeking loan finance, emphasise the certainty of your ability to repay the loan – don't emphasise prospects of sky-high profits. Remember, debt financiers do not share in profits. Big talk about profits will make a debt financier view you only as a risk-taker or unrealistic dreamer.

On the other hand, if you are making presentations to equity (share) investors, you certainly want to emphasise your profit potential.

Here again, refer to persons and organisations who have expertise in the field of business financing.

YOUR BUSINESS AND THE LAW

Business and the law are inseparable – both in forming your new business and its subsequent operations. As a first step you have to decide on the structure of your new business – sole trader, partnership, close corporation or company - and it is important to

take professional advice on this before you finalise your business plan. Professional advice will ensure you understand which structure will be most suitable for you.

Business structure

The type of structure you choose, will determine how you are taxed and the business records you must keep. Before proceeding you should consider the following:

1. Sole trader

- This type of business is easy to set up and subject to minimal laws/regulations.
- You are personally and totally responsible for all the debts and liabilities of the business.
- It is possible to alter this business structure to, for example, a private company.
- You make all the business decisions.

2. Partnership

- This type of business is easy to set up and subject to minimal laws/regulations.
- The responsibility is shared.
- A partnership is subject to disagreement between partners.
- Experience, finances and expertise are combined.

3. Close Corporation

- This type of business is easy and relatively inexpensive to register.
- The owners (1-10) are not personally responsible for the debts.
- The business has growth potential.
- The type of business is more credible for dealing with suppliers and customers.

4. Company (private or public)

- It is a lengthy procedure to establish this type of enterprise.
- Double taxation takes place. The company is taxed on profits and dividends taxed in the hands of the shareholder.
- The owners are not held responsible for the debts of the enterprise.

Other legal considerations

Department of Labour

There are certain laws regulating the hiring, management and dismissal of workers. You have to be aware of your rights as an employer, as well as the rights of the persons in your employ. You must approach the regional office of the Department of Labour for more details.

SARS

You should contact the offices of the nearest Receiver of Revenue to find out about the need to register for tax purposes in terms of VAT, employees' tax and income tax.

Trading licences

Trading licences are no longer required for certain types of businesses. However, the following types of businesses need licences:

- Selling of meals and perishable foods from business premises
- Selling of takeaways and perishable foods from the roadside
- Certain classes of health facilities and entertainment (discos, movies)

Contact numbers

Labour issues	Department of Labour	(021) 462-3680
Tax queries	SARS	(021) 460-2911 / 086 012 1218
Trading licences	Local Municipality	Consult your telephone directory.



PREPARING A BUSINESS PLAN

Your business plan is the blueprint for your business. It should give you a clear view of what you are aiming for, as well as your business's strengths, weaknesses and opportunities, and the threats in your business environment. Use your business plan as your map. Like all plans, it will not be cast in stone, but will be subject to constant review and change. Try to prepare a comprehensive but succinct plan. This will make it easier for investors and lenders to review and comment on it.

▼ Your business plan must indicate the following:

- What you intend doing
- How you will do it
- When you intend doing it
- Why you believe the venture will succeed

Your business plan could be compiled in the format below. Simple examples are provided as a guide and cannot be taken as sufficient for a complete well-written business plan. Your SMME support centre can be of great assistance here.

▼ Professional-looking front page and contents page

- Name of business (e.g. Careline Shuttle Services)
- Your personal information (e.g. Kim Buthelezi, 12 Green St., Nyanga, Tel. 668-6000)

▼ Summary/important features

- Description of product (e.g. shuttle service between Cape Town Airport and hotels in the CBD)
 - Why venture will be successful (e.g. will provide 24-hour, safe, door-to-door pick-ups and drop-offs and secure exclusive rights with ABC Hotels)
- Short-, medium- and long-term objectives (e.g. objectives are to initially secure the CBD market and then expand to a national level)

▼ Business description

- General description of your business (e.g. shuttle service between airport and CBD, operating 24 hours, three vehicles)
- Type of ownership (e.g. close corporation, 1 member)
- Uniqueness of the product (e.g. 24-hours operation, exclusive rights with ABC Hotels)

▼ Marketing plan and strategy

- Target market (e.g. overseas tourists requiring reliable transport from airport to accommodation and back)
- Competitors strategy (e.g. most competitors charge low prices, but have a low reliability rate and only operate 08:00 to 18:00)
- Pricing, product, promotion and distribution strategy (e.g. pricing will be higher than that of competitors, but a more reliable 24-hour service operating with three vehicles will be offered)

▼ Financial plan and strategy

- Financial forecasts: Profit and loss (show calculations of expenses vs income), cash flow (show monthly inflow and outflow of cash), break-even analysis (show how many clients must be transported or trips undertaken to cover costs)
- Source of funds (e.g. the owner will be contributing R80 000 and a family member has agreed to contribute R20 000 as a loan; a further amount of R30 000 will be requested from the bank)
- Use of funds (e.g. to purchase three mini-buses and office furniture and to pay salaries)
- Security offered (e.g. the owner will offer his/her house as security for any loan)

▼ Operating plan and strategy

- Staff component (e.g. the owner, three drivers, a receptionist)
- Suppliers (e.g. ABC Hotels, CBD accommodation providers, tour operators)
- Description of the manufacturing/distribution of the product (e.g. vehicles will respond from call centre once request has been received; clients will be picked up at point A and dropped off at point B)

WHERE IS YOUR LOCAL RED DOOR?

- ▼ **Conclusion**

 - Motivation as to why business will be successful (e.g. *We offer an excellent service with exclusive contracts with the ABC group of hotels.*)
 - Motivation as to why finance should be granted (e.g. *We have thoroughly researched the market and are convinced that our service will meet the needs of the client, providing an above average return on investment.*)

- ▼ **Additional information (copies of supporting documents)**

 - Credit reports (e.g. *bank statements of owner for past 12 months*)
 - Contracts (e.g. *written agreement with ABC Hotels*)
 - Legal documents (e.g. *CC registration document, PDP*)
 - Leases (e.g. *copy of lease agreement with Airports Company for boarding point*)

SUPPORT

The most important thing to know is that there is help available: help in starting up your new business or growing your existing business in the form of training, business advice and market intelligence.

Visit your local RED Door !

Mitchells Plain
 Shop C-O3
 The Promenade
 C/o AZ Berman and
 Morgenster Road
Tel. (021) 376-2377
Fax (021) 376-4524
InfoMPlain@reddoor.co.za

Atlantis
 Shop No. LS 19
 Atlantis Shopping Centre
 Wesfleur Circle
Tel. (021) 572-0901
Fax (021) 572-0919
InfoAtlantis@reddoor.co.za

Hermanus
 U4 G Floor
 Shopping Centre
 C/o Main and Mimosa Streets
 Mimosa Gateway
Tel. (028) 312-1812
Fax (028) 312-1849
InfoHermanus@reddoor.co.za

Oudtshoorn
 70 Voortrekker Road
Tel. (044) 272-0751
Fax (044) 272-6173
InfoOudtshoorn@reddoor.co.za
.za

Vredenburg
 41 Main Street
 Vredenburg
Tel. (022) 719-1962
 Fax (022) 719-1965

Khayelitsha
 Shop 22
 Makhaza Shoprite Centre
 C/o Lansdowne and Cekeka Streets
Tel. (021) 362-6621
Fax (021) 362-6634
InfoKhayelitsha@reddoor.co.za

Knysna
 Lower Level
 Garden Route Centre
 C/o Grey and Main Streets
Tel. (044) 382-7227
Fax (044) 382-7253
InfoKnysna@reddoor.co.za

Paarl
 Shop 23
 Shoprite Mall
 C/o Bergrivier Boulevard and
 Vanderlingen Street
Tel. (021) 872-9904
Fax (021) 872-8154
InfoPaarl@reddoor.co.za

Beaufort West
 Shop 3
 136 Donkin Street
Tel. (023) 415-1109
Fax (023) 414-2779
InfoBWest@reddoor.co.za

Department of Economic Development and Tourism
 Tel: (021) 483-2628

NOTES

AIDS
Is everybody's business!



HIV/Aids is a threat for every company in the world today, a risk business can't ignore. HIV/Aids knows no boundary; it penetrates borders and threatens the world's emerging economies.

As a business manager/owner or CEO you have a critical question to answer:

What will the consequences be if I do not invest in the fight against HIV/Aids?

"HIV/Aids is not only a human crisis. It is a threat to sustainable global social and economic development" Juan Somovia: ILO Director General.

Don't delay, act now! Be proactive and invest in the future of your business by developing and implementing your HIV/AIDS policy, now.

For more information contact your HIV/AIDS Help line at:
Tel: 0800 012 322 or visit www.aidsinfo.co.za