



## Introduction

Starting your own business can be overwhelming. It is important to remember that to be successful in business you need to think outside the box and be willing to take risks.

Informal business, you need to ensure that you are legally compliant when running a business.





## 1. Business opportunity

The reason why many people fail to take the risk and start a business on their own is that they lack an idea of what to produce or sell.

The process of identifying a business opportunity starts with identifying the needs and wants of the community. This will assist you in generating ideas. Once you have generated a few ideas, each of these ideas should be tested to see whether they can be turned into an opportunity. Thereafter, by thinking about each idea and rejecting the ideas until only one is left, you will identify your business opportunity, (process of elimination).

Now, let's put your mind into a mode which makes it willing to receive new ideas. In order to do this, you will be introduced to a number of sources for generating business ideas.

### 1.1 Ideas in everyday activities

Shopping

Go to a shopping centre and examine some of the products in some of the shops and ask yourself the following questions:

- How can this product/service be improved?
- What products are missing from the range?
- Can this product be produced at a cheaper cost?
- Could the packaging be improved?
- Could the product be aimed at a different market?
- Can the service be delivered more promptly?

#### 1.1.1. Media

While watching television or reading magazines think about the products advertised. Ask yourself whether they could be improved or promoted in a better way. Ask "what if" questions.

#### 1.1.2. Talking to people

Ask your family and friends whether they have thought of any ideas for new products or services. Are there any existing products or services, which they feel, are poor or inadequate? Ask "what if" questions.

#### 1.1.3. Household duties

Think about business opportunities while performing household duties – gardening, cooking, ironing, washing up, painting, looking after the children, or sweeping. Is there a quicker, safer, easier, cheaper, more pleasant or less boring way of doing it? Could you design a new labour-saving device? Ask "what if" questions.

#### 1.1.4. Creating toys for children

Visit a nursery and see how children play and interact. Could you design new toys and games? Are there services you could supply, such as a catering service specially tailored for children? Ask "what if" questions.

#### 1.1.5. Holidays

While on holiday, do you see products or services that you do not have at home? Which product or service is better or worse than the ones at home? Are there perhaps any products or services that you can design for travellers? Ask "what if" questions.



1.1.6. Sports and hobbies

If you have a hobby or play a sport, look out for products or services that are missing or could be improved. Perhaps some sporting equipment could be improved or made cheaper. Ask “what if” questions.

1.1.7. Generic human needs and wants

Every business basically tries to satisfy a specific human need or want, whether it is for a product or service. One way to find business ideas is to look at the community or area where you will do your business to see what needs are already being satisfied and where there are still any gaps.

We all have needs and wants.

**Needs**

There are some basic things that we all need, such as food, water and shelter.

**Wants**

Once our basic needs are met, then we find that there are other things we want - things that make our lives a little easier or more comfortable.

## 2. Registering your Business

If you plan to register your business, as a company, for example, you need to register with the Companies and Intellectual Property Commission (CIPC). You have to print the forms, complete them and then submit the forms to the CIPC.

Alternatively, you can go to the website [www.cipc.co.za](http://www.cipc.co.za)

The forms cannot be completed online, so again you will need to print and complete them. However, you can register your new company online.



For help, you can go to the following web page:  
[http://www.cipc.co.za/Help\\_files?HowTo\\_NewCoReg.pdf](http://www.cipc.co.za/Help_files?HowTo_NewCoReg.pdf)

### 2.1 Documentation

For a company, several documents must be submitted to the CIPC.

### 2.2 Name reservation

You need to reserve the name for your business. You must complete the form CoR 9.1 to reserve the name of your business. Only once the name has been approved may you use the name.

### 2.3 Memorandum of Incorporation

The most important document governing a company is the Memorandum of Incorporation (MoI). The Companies Act impose specific requirements on the content of a MoI, as necessary to protect the interests of shareholders in the company. It also provides for a number of default company rules / alterable provisions, which companies may accept or alter as they wish – as long as the changes are in line with the Companies Act.



2.4 Proof of Payment

Proof of payment of the filing fee must be submitted, along with the completed notice of incorporation and Mol.

Ensure that you use the official CIPC forms.

On approval and acceptance of the incorporation documentation, the CIPC will issue you with CoR 14.3, registration certificate.

3. Meet SARS Requirements

As soon as you start a business, you are required to register with your local SARS office to obtain an income tax reference number. Depending on other factors such as turnover and payroll amounts, you could also be liable to register for other taxes and duties such as

- VAT
- PAYE
- SDL
- UIF

You will be required to register with SARS for the following periodic returns:

- Register your business for income tax (Form IT77C)
- Register yourself as a taxpayer if you have never been registered before (Form IT77)
- Register for PAYE, Skills Development Levy and Unemployment insurance Fund contributions (Form EMP101)

3.1 Turnover Tax

The new turnover tax has a new simplified tax system, which consists of a turnover tax as a substitute for income tax, CGT, STC and an increase in the VAT compulsory registration threshold from R300,000 to R1 million. The turnover tax is optional so a micro business can decide if it wants to use it or the current tax system.

 Note: Registering for turn over tax is only applicable if you turn over more than R1 million a year.

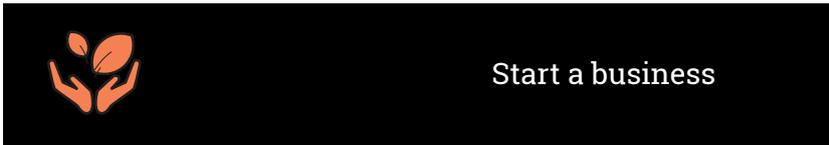
Unlike the income tax system that uses comprehensive inclusion rules and the reduction process that requires proof of expenditure to be maintained, the turnover tax is calculated by simply applying a tax rate to a taxable turnover. The taxable turnover consists of the turnover of the business with a few specific inclusions and exclusions.

See SARS website for turnover tax rates  
Before completing the turnover tax application form, it is advisable to determine if your business qualifies for the turnover tax for the year of assessment. By answering the following 11 questions, you will be able to determine whether you meet the criteria to qualify for turnover tax. If your answer to any one of the questions is “no”, your business will not qualify for turnover tax for the year of assessment.

 Note: You can access the questionnaire on SARS web site at [www.sars.gov.za](http://www.sars.gov.za)



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No.	Question	Yes	No
1	Will the qualifying turnover of the business be less than or equal to R1 million for the year of assessment?		
2	Do you declare that the business is not a personal service provider or a labour broker without a SARS exemption certificate?		
3	Does the business trade in one of the following forms: sole proprietor, partnership, close corporation, company or cooperative?		
4	If the business is a partnership, do you declare that all the partners will be individuals throughout the year of assessment?		
5	If the business is a close corporation, company or cooperative, do you declare that all the shareholders / members will be individuals throughout the year of assessment?		
6	Do you declare that the business is not a public benefit organisation or a recreational club?		
7	Does the business have a year of assessment that ends on the last day of February?		
8	Do you declare that the shareholders, members and the business do not hold shares / interests in another close corporation, cooperative or company other than the exception listed in 4.4.1 of the tax guide for micro business.		
9	If you are a natural person, do you declare that the income from "professional services" is not expected to exceed 20% of your total receipts during the year of assessment?  If the business is a company, close corporation or cooperative, do you declare that income from "professional services" and "investment income" is not expected to exceed 20% of the total receipts for the year of assessment.		
10	Do you declare that the income from the disposal of assets by the business over the year of assessment and the past two years of assessment is not expected to exceed R1.5 million in total?		
11	Do you declare that the business was not previously registered for the Turnover Tax?		



### 3.2 Registering for VAT

A business with sales of more than R1 million per year must register as a VAT vendor. Businesses with sales of less than R1 million can register on a voluntary basis. You are required to submit returns and account for VAT to SARS according to the tax period allocated to you. Tax periods cover one, two, four, six or 12 calendar months. On acceptance of your registration by SARS, you will be allocated one of these categories. VAT must be paid to SARS on a monthly basis. Business with turnovers of more than R30 million per year must pay VAT every two months (Category A or B), while a business with a turnover of less than R1,5 million per year will pay VAT every four months (Category F).

To register for VAT, you must complete and return form VAT101:

- You collect VAT from your customers by adding 14% to the total amount they have purchased
- You pay VAT every time you purchase supplies or pay for services
- You are required to file form VAT 201 Return for remittance of value added tax according to the tax period allocated to you. Form VAT 201 basically takes the amount of VAT that you have collected and deducts the amount of VAT that you have paid. You must pay SARS if you collect more VAT than you have paid. Conversely, you will receive a refund if you have paid more VAT than you have collected.

## 4. Business account

### 4.1 Bank Account

You will not be able to open a bank account until you have your company registration documents. Apply for a bank account by talking to the branch manager or one of the consultants responsible for dealing with new business accounts. If you have been using a bank already, try this bank first. However, consider checking out other banks that may offer you a better deal. Choose a bank / branch that is located conveniently near to your business.

Shop around for the best value and service, and check the bank fees charged by various banks for cheque and other transmission accounts. Ask for overdraft facilities (this can take some time to approve).

You will need:

- The valid ID documents of all members / directors in the business
- Proof of residence of all members / directors in the business
- Copies of all company documentation
- A signed lease agreement for the business premises (business-type dependent)
- A complete cheque account application, which requires detailed financial information
- Any other owner's signatures if there is more than one owner, although it is preferable if all concerned are present when opening the account



## 5. Business plan

A business plan is an important tool for managing and growing your business. A well-designed plan lays out a vision of growth and the steps needed to get there. A plan is also an essential communications tool for attracting financing for your business as well as managers and staff as your business grows.

*Example*

*If you writing a business plan to take to the bank for a finance application, you will include information about how much money you need to borrow, how you are going to pay it back and what security you can offer as a guarantee for the loan.*

### 5.1 Creating a business plan

Once you have decided on what your business needs and how you see the business growing you are going to have to consider what you will include in your business plan.

There are 7 components of a business plan:

- Executive Summary
- Business Description
- Market analysis (also known as a SWOT analysis, which is an analysis of your strengths, opportunities, weaknesses and threats)
- Organisational management
- Sales strategies
- Funding requirements
- Financial projections

A business plan is important, as it is your roadmap on how you will manage your business. It is also a good document to have if you want to apply for finance or sponsorship for your business.

### 5.2 Code of ethics

Ethics are adopted by businesses to assist members in understanding the difference between “right” and “wrong” and in applying that understanding to the decisions. When setting up a business, it is important to let your members know how to treat clients, shareholders, customers etc.

*Example:*

- Maintain the confidentiality of all clients information
- Dress appropriately
- Respect your co-workers

### 5.3 Business plan template

It is very important to focus your attention on the contents of your business plan. Your business plan needs to convey your value proposition in an attractive and logical manner in order to persuade the bank manager to provide you with the financial assistance that you need to start your business.

#### 5.3.1. Title page

- The title page of your business plan is the first page a banker or investor sees. Therefore, it should be structured neatly and appeal to your intended audience. The title page generally includes the following items:



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- Name of your business or proposed name for your business.
- First and foremost, your Company's name should be included on the business plan cover. This should be the most prominent feature of the cover, and as such is traditionally in the largest font setting. Immediately, the reader should know the name of your company.
- Company Logo
- The best business plan covers are those that look like they are of professional quality. This can be accomplished by including a high-quality image of the company's logo along with including the font type and colour scheme for the company's marketing materials. Similar to a book cover, a business plan cover is intended to draw the attention of the reader immediately. Plans with an unattractive cover can fall victim to incorrect preconceived notions for the intended audience.
- Name, Address and telephone number of the entrepreneur or Chief Executive Officer (the person responsible for the business)

*Example*  
862 St George Street  
Ebony Park  
Midrand  
1685  
example@examplemail.com  
[www.example.com](http://www.example.com)

- Title and date - When was this plan written? Readers need to know, to include the date (month and year is enough). And what is it? The cover should state if this is a Business Plan, Executive Summary or Financial Projections. So, at this point, your cover page may read as follows:

*John's Plumbing, Inc.*  
*Business Plan*  
*January 2018*



Note that the title and date should be featured less prominently than your company name.

### 5.4 Business Plan Template - What should go in a business plan?

#### 5.4.1. Executive summary

An executive summary gives an overview of your business. It is the first thing that the reader will read, and it gives them the first impression of your business.

#### 5.4.2. Vision

Our business's vision is to [describe your long-term goal, or insert your vision statement]

#### 5.4.3. Mission

Our business's mission is to [describe your ultimate goal, or insert your mission statement]

#### 5.4.4. Business

[The business] was founded in [date] and [describe what your business does, such as junior and senior athletics]. It is a [legal form of and registered NGO]. Our business is located at [x].

#### 5.4.5. Achievements

Our business has [won the league for the past three years]



- 5.4.6. The target market
  - Who are your customers?
  - Who does your business serve, how many members, how many spectators?
- 5.4.7. Competition
  - We compete directly with [name competition], or We have no direct competition, but there are alternatives to our [business] in the marketplace. Our [business] is unique because of [x] and/or we have a competitive advantage because of our [coaches].
- 5.4.8. Risk / opportunity
  - The greatest risks we have in our business today are [funding for tours]. We feel we can overcome these risks because of [x].
  - The opportunities before us are significant; we have the opportunity to [have a second team] if we can [x].
- 5.4.9. Management team
  - Our team has the following board members to achieve our plan. [x] men and women who have combined [x] years of experience; [y] years in marketing, [y] years in sport development, and [y] years in [other disciplines].
- 5.4.10. Capital requirements
  - We seek [R] of additional [equity, sub-debt, or senior financing] which will enable us to [describe why you need the funds, and why the opportunity is exciting].
- 5.4.11. Financial plan
  - At this point, the sponsor must have a clear idea of where your business stands today. You must provide a snapshot, however sparse, of your financial position.
- 5.4.12. Annexure
  - Instead of including all the information in your business plan you can refer them to the end for a detailed document. This is called the annexure.
  - Your annexure could include the following:
    - Success rate of the business
    - Media coverage
    - Membership and spectator numbers
    - Market research data
    - Past advertising campaigns

## 6. Raise Money

When you are starting up your own business, it is likely that you will need money. There are several types of funding available in South Africa, but it is not easy to come by. When you are trying to secure funding, you must keep in mind that some sources of finance will be appropriate for some but not for others.

The different types of funding in South Africa are:

- Debt finance
- Bank finance
- Angel investors



- Private equity
- Venture capital
- Government funds
- Government grants

#### 6.1 Debt finance

Debt finance is basically money that you borrow to run your business. In exchange for lending the money, the individuals or institutions become creditors of the business and are entitled to the payment of interest and to have their loan repaid at the end of a given period.

This type of funding can be long-term or short-term. Long-term debt financing usually helps to cover a business's need to buy basic necessities, such as facilities, equipment and vehicles. Short-term debt financing includes debt securities with shorter repayment periods and is used to provide day-to-day needs such as inventory and payroll.

#### 6.2 Bank finance

An overdraft is the ideal way to manage your cash flow. It is linked to your business account, and you can use as much as you need, up to your limit. It's quick and easy to arrange, the cash is available when you need it, and you only pay interest on what you use, not on the full amount at which your limit is set.

#### 6.3 Asset finance

Asset finance enables the business owner to buy movable assets and equipment (anything that can be moved) for example, the stove used to make scones, in a way that makes it easiest to manage cash flow.

#### 6.4 Angel investors

Unlike banks or other financial institutions, angel investors are willing to take a chance and invest smaller amounts of money in high-risk businesses, with the hopes of gaining high returns within a set period of time (usually five to ten years).

High-risk businesses are businesses that there is a high risk of financial failure. Most start-up businesses are high risk as nobody can be sure if the business will be a success. These wealthy individuals use their own funds to finance projects that they believe will be successful, or where they can use their talent and skill to mentor new entrepreneurs.

Angel capital fills the gap in start-up financing between friends and family and large venture capital investment - it is usually difficult to raise more than a few hundred thousand rand from friends and family, and most traditional venture capital funds usually only consider multi-million Rand investments. This funding opportunity is, therefore, a common second round of financing for high-growth start-ups. Because it's extremely high risk, a very high return on investment is normally required.

#### 6.5 Private equity

Private equity (value) consists of money from third-party investors that is pooled together and then invested into other businesses. They can commit large sums of money for long periods of time. Private equity companies usually seek to invest large sums of money into big businesses, but there are smaller private equity firms in South Africa that may be interested in making smaller investments.

Be warned though, that securing private equity can be a time-consuming and difficult process. Private equity firms usually look for entrepreneurs who have contributed to their businesses using their own



funds, have a solid credit history, a well thought out business plan and the necessary experience and skills to successfully operate in their chosen field.

### 6.6 Venture capital

Venture capital (VC), a type of private equity, is equity funding provided by outside investors into early-stage, high-potential, high-risk ventures in return for above-average returns. The VC capital fund makes money by owning equity in the companies it invests in, which usually has a new technology or business model in high-tech industries.

This form of funding is attractive for new companies with limited operating history (and a tried and tested concept) that are too small to raise capital in the public markets and have not reached the point where they are able to secure a bank loan or complete a debt offering. In exchange for the high risk that venture capitalists assume by investing in smaller and less mature companies, they usually get significant control over company decisions, in addition to a significant portion of the company's shares and future value.

### 6.7 Government funds

South African government funding assists previously disadvantaged South Africans to develop new businesses.

The dti (Department of Trade and Industry) provides financial support to qualifying companies in various sectors of the economy. Financial support is offered for various economic activities, including manufacturing, business competitiveness; export development and market access, as well as foreign direct investment.

Khula Enterprise Finance helps SMMEs (Small, Medium and Micro-sized Enterprises) to secure loans from banks. It does not lend money itself. Khula also provides mentorship to entrepreneurs, helping them to manage their businesses successfully. The mentorship programme includes the transfer of skills on a face-to-face basis, the development of a business plans, and pre- and post-loan services.

The South African Micro-Finance Apex Fund gives financial services to small-scale entrepreneurs living in rural and outer urban areas. SAMFAF does not lend money directly to the public. It uses existing institutions within communities to handle the funds and lend to qualifying entrepreneurs.

The National Empowerment Fund supports B-BBEE. It anticipates future funding and investment requirements to assist black entrepreneurs and communities achieve each element of the Codes of Good Practice.

### 6.8 Government Grants

Grants do not have to be repaid, but they do require a considerable amount of paperwork. You will also be required to account for how you spend the money.

The Black Business Supplier Development Programme (BBSDP) is a cost-sharing grant offered to black-owned small enterprises, to assist them in improving their competitiveness and sustainability, in order for them to become integrated into the mainstream economy and create employment.

The Department of Trade and Industry's (the dti's) Tourism Support Programme (TSP) is a sub-



programme of the Enterprise Investment Programme (EIP). It is a targeted incentive, aimed at supporting the development of tourism enterprises, thereby stimulating job creation and encouraging the geographic spread of tourism investment.

The Support Programme for Industrial Innovation (SPII) is designed to promote technology development in South Africa's industry, through the provision of financial assistance for the development of innovative products and/or processes.

The co-operative Incentive Scheme (CIS) is a 90:10 matching cash grant for registered primary co-operatives (a primary co-operative consists of five or more members). The CIS is an incentive for cooperative enterprises in the emerging economy to acquire competitive business development services and the maximum grant that can be offered to one co-operative entity under the scheme is R350,000.

## 7. Formulate the budget

Budgeting allows a company to be cost-effective by carefully monitoring operating expenses. Weekly, monthly, or quarterly monitoring of budget projections through performance reports allows a company to take corrective measures on short notice where and when necessary.

### 7.1 Costs

When we are compiling a budget for your business, we would have to analyse the items in the budget from previous years or even the items in other business units, such as:

#### 7.1.1. Fixed costs

These are costs which do not change, i.e. they are fixed, irrespective of how much we produce or sell. An example of a fixed cost would be that of the rental, which we are paying for our premises.

#### 7.1.2. Variable costs

These are costs which vary as production varies, i.e. the more we produce, the more our variable costs will increase. An example of variable costs would be electricity, i.e. the more we produce, the more electricity we will use up in the form of lighting etc. This is only one example of a variable cost. There are many others: advertising, wages, postage etc.

#### 7.1.3. Product costs

Product costs refer to costs which are associated with the production of the particular units or outputs being sold, and these costs are charged against revenues made from the sale of the product. Examples of product costs include material, labour etc.

#### 7.1.4. Period costs

Period costs are costs, which are associated with certain periods of time and therefore expire when the particular time period to which they refer has passed. Examples of period costs include depreciation, salaries, rent expense etc.

#### 7.1.5. Opportunity costs

Opportunity costs refer to the loss of an opportunity, as a result of rejecting an alternative use of our resources, whether these resources are land, labour, capital or entrepreneurship. The concept of



opportunity cost is often associated with the question “What If...?” In other words, opportunity cost refers to the cost involved of our choosing one option (Option A) at the expense/instead of another option (Option B).

7.1.6. Controllable costs

Controllable costs are those costs, which can be influenced or controlled, either through production or size, as a result of direct management intervention.

7.1.7. Non-controllable costs

Non-controllable costs refer to those costs, which cannot be affected (influenced) by management. Examples of non-controllable costs would be the rate of interest that the company has to pay for any monies which it has borrowed from the bank.

7.1.8. Future costs

Future costs refer to those costs that may need to be incurred by the business in the future. It is important to realise that these costs will always only be estimates, as the operation will never have any guarantee as to what is going to happen to the price of things in the future.

7.1.9. Past costs

Past costs refer to those costs, which the business has incurred in the past, to assist it with its performance/operation. What is important to realise is that these past costs can often serve as an indication of what the future costs of the business are going to be. Past costs can thus be used for budgeting and forecasting processes, but they must be used with care, as they are no guarantee of what is going to happen in the future. Past costs can also be used for controlling purposes, as well as being able to give management an idea as to what they are spending most of their money on.

A manager would prepare a budget to determine whether he/she can achieve their profit goals. To do this, you must project your fixed costs and your variable costs. From these three figures -- targeted profit, fixed expenses and variable expenses -- you can determine your required level of income:

- Many businesses start with a forecast of profits and work up to a forecast of sales.
- Even large corporations can determine the required return on investment that shareholders require and then work back to planned revenue goals.
- Alternatively, you can start with a sales forecast, but don't forget the bottom line must still give you the required return.

7.2 Review and modify the drafted budget

Once complete, the drafted budget is reviewed, reflected on and modified to ensure alignment to the operational plan of the unit.

The frequency with which a person monitors the budget and checks for differences (variances) will differ: a sales person or production manager usually checks his/her performance daily, while the production or sales manager might check weekly.

Determine what caused the variance:

- Have we lost orders?



- Have we spent too much on raw materials?
- Have we used more materials than we thought we would/should?
- Have we spent too little or too much on promotion?

A budget is not cast in stone. You need to take appropriate action to either get the original budget back on track or revise the original budget commitment to take new facts into account, depending on how big or important the variance is!

Questions you would ask are:

- Should we reduce costs?
- Should we increase promotional expenditure to continue to maintain sales?
- Should we increase production to meet higher than expected sales figures?
- Should the whole budget be revised to meet the new position?

### 7.3 Keep to monitoring systems

The key aspects to financial controls and monitoring are:

#### 7.3.1. Accounting records (or Accounts receivable and payable)

Establish a process that records every financial transaction by maintaining paper files, an electronic database, and copying all records in a virtual library. You need to be able to demonstrate what funds were received and how funds were spent.

Accounting records should be consistent. Choose a method and regular schedule for tracking income and expenses according to your company's policies and procedures. This is important in case the company is audited.

#### 7.3.2. Financial planning

Financial planning converts your unit's objectives into a budget. The budget serves as a critical planning guide for you and your staff. It is a record of how you intend to spend the funds received. Financial planning allows you to review your unit, examining successes and challenges in the past. Planning also enables you to make projections and set targets, informing strategies for future success.

#### 7.3.3. Financial monitoring and reporting

Drawing from the information in the accounting records, you can create internal reports that help monitor progress by comparing budgets to actual expenses. Frequent reviews and monitoring allow you to measure your unit's progress and help inform decision-making about the unit's or a project's future.

Internal reports, sometimes called management reports, allow you to be forward thinking as you assess the financial status of the unit and what will be needed to realise your goals.

Accounting records are also the source for creating external financial reports that demonstrate to stakeholders how funds have been spent.

You may require financial reports at the completion of a project or sometimes during a project's implementation.

#### 7.3.4. Internal controls



Controls are financial practices that help safeguard your assets and ensure that money is being handled properly. Controls help detect errors in accounting, prevent fraud or theft, and help support the people responsible for handling your unit’s finances.

Examples of how to ensure that funds are spent transparently and in a manner for which they are intended:

- Have two people approve and sign the expenses over a certain amount of money.
- Keep records that cannot be altered by numbering receipts, using a system where the data entry corresponds with a specific invoice or contract.
- Assign qualified and experienced personnel to manage accounts.
- Assign different staff in your unit distinct responsibilities related to managing income. For example, one person is responsible for authorising expenses, another is responsible for handling cash, and another is responsible for recording transactions.
- Develop a procedural manual for record-keeping.