

Part I

First Steps

Glenn Lumsden



'I've finally found a boss who's fair and reasonable, has my best interests at heart and deserves my undying loyalty. Me.'

In this part . . .

Business success is an elusive thing. No-one can predict whether your idea is going to fly like a falcon or die like a dodo, because the final outcome depends on luck just as much as it depends on commitment, and on creativity as much as planning. However, one of the most important ingredients to success is how you feel inside yourself — are you ready for the exciting (but sometimes pretty scary) journey of going solo, and are you prepared for the changes in your life that self-employment brings?

In the first two chapters, I talk about all these things, discussing both the good and the bad bits of running your own small business, combining chilling realism with optimism and enthusiasm. I also talk about one of the thorniest decisions of all: Is it best to start a business from scratch, or to buy a business that's already established?

Chapter 1

Is Small Business for You?

In This Chapter

- ▶ Working for yourself — the good things that make it all worthwhile
- ▶ Working for yourself — the bad things that no-one wants to talk about
- ▶ Getting the timing right (now where *is* my crystal ball?)
- ▶ Figuring out your business strategy
- ▶ Digging up government advice, free of charge

I love small business. For me, small business is about believing in yourself, being passionate about what you do and creating opportunities. Our culture of getting up, getting out and giving it a go fits perfectly with this entrepreneurial existence, explaining why so many Australians and New Zealanders are hooked on the self-employed way of life.

Although starting your own business can be pretty daunting at first, the everyday challenges don't leave you with much time to regret your decision. Besides, being self-employed is a pretty addictive thing: Working your own hours, being responsible for your decisions and raking in handsome profits (here's hoping) are just some of the attractions of being your own boss.

In this chapter, I talk about what it means to start your own business. I take you on a roller-coaster ride over the highs and lows of small business terrain (for every upside to being out there on your own, there's a downside, too), through to making the decision *when* to actually 'open shop'. After all, the success of any venture depends on timing — the best time for the business, the best time for the economy and the best time for you.

So put on your stack-hat, hold on tight and get ready for the trip of a lifetime ...

Working for Yourself — A Dream Come True?

If you ask most small-business people what they like the best about working for themselves, you're likely to get a pretty cynical reply — something about the delights of working for peanuts and the thrills of doing bookwork in the wee hours of the night. But dig a little deeper, and most self-employed people warm to the question.

Doing what you love to do

Doing what you're passionate about has a lot going for it. If you want to play the trumpet day and night, then you're likely to be happiest as a professional musician. If you love hanging off cliffs on the end of a rope, you're going to dig being a climbing instructor. And if you've never quite gotten over your LEGO phase, you probably need to go and build houses.

Happy people love what they do for a living. Besides, being self-employed is often the only way you can get to do just that (nine-to-five jobs tend to be rather thin on the ground for trumpet players or climbing instructors!).

Earning pots of money (here's hoping)

With many trades and professions, your income always has a pre-defined upper limit, no matter how hard you work — a teacher, a carpenter or a nurse on the regular payroll is limited in the amount of pay they can get. However, by setting up your own business, whether you're tutoring private students, building house extensions or doing private home nursing, your earning potential immediately increases.



Statistics that compare the taxable income of self-employed individuals against employees working in similar industries or professions are hard to come by. However, if you start up a low-risk kind of business — home-tutoring, for example — the financial benefits of becoming self-employed are small but relatively guaranteed. On the other hand, if you start up a high-risk business — say, launching a new invention — you could end up losing everything you have. On the other hand, you could just wind up a millionaire.

Being your own boss

No-one is going to dispute being your own boss is *fantastic*. And no matter how much you stuff things up, no-one can give you the boot — except perhaps your customers — leaving you with a feeling of security that's hard to beat. Here are some other reasons why being your own boss feels so good:

- ✔ **You get to set your own rules:** Your rules may involve anything from setting enormously high standards, to declaring mufti days seven days a week.
- ✔ **You choose when (and how often) you work:** Of course, choosing when you work often means working 24 hours a day, seven days a week. However, in theory you can pick and choose which hours you work and when you take holidays.
- ✔ **You follow your own instincts:** You can do what *you* think is right, as opposed to doing what someone else thinks is right. I know firsthand how frustrating it is to be forced to do stuff the wrong way, or the slow way, just because the person who is giving the orders happens to be your boss.
- ✔ **You can use your conscience:** You can afford to make decisions that may not be the best from an economic point of view, but are good decisions in terms of your own conscience. For example, before listing as a public company, and way before solar energy became fashionable, MYOB Australia installed solar power throughout its Melbourne headquarters. At the time, this decision wasn't the most cost-effective strategy in terms of electricity, but one that was in keeping with the ethics of the partners.
- ✔ **You can take risks:** When you're self-employed, you can take risks that you may not be able to otherwise take. Thousands of successful businesses have been started by former employees who went out on their own because their employers didn't believe in the viability of their new ideas.
- ✔ **You can provide employment for family members:** Being in a business team with your family, and being able to provide employment when it's needed, can be one of life's most satisfying experiences. (Of course, it can also be one of life's most frustrating experiences, but I'm not going there right now.)
- ✔ **You can realise your dreams:** No business book is complete unless it mentions dreams. Nothing beats putting your heart and soul into what you believe in.

Staying home

Something quite satisfying permeates your core when you can take business calls while sitting on the veranda in your slippers and daggy old dressing gown. I love walking to my 'office', ten seconds down the hallway, rather than commuting two hours by train to the city. And I also find it rewarding (in a frustrating, interrupted kind of way) being there for the kids whenever they need me.

According to both the Australian Bureau of Statistics (ABS) and Statistics New Zealand, home-based businesses make up almost two-thirds of total small businesses in Australia and New Zealand, reflecting part of an international trend towards more businesses operating from home (a trend presumably partly fuelled by improvements in technology). Home business is the spawning ground from which larger businesses are born, including iconic brands like Billabong, Navman, Pumpkin Patch, TradeMe and many more.

However, being the owner of a home-based business comes with its own set of particular challenges, such as cereal getting spilt on business contracts or kids howling in the background. For lots of different perspectives on what running a business from home can mean, check out the following:



- ✔ www.businessswap.com.au isn't about swapping your business with someone else (which sounds kind of enticing some days, I confess). Instead, Business Swap is an international network of professionals and business owners. Regular meetings, networking and special 'mastermind' meetings all help people share their skills and experience, as well as keep each other motivated.
- ✔ www.flyingsolo.com.au is an online resource for anyone going it alone in business with over 200 articles, lots of free tips and tools, and a weekly newsletter.
- ✔ www.hbba.biz, the Home Based Business Australia site, includes a handy HBB Networks page that includes a directory of business associations around Australia.
- ✔ www.homebizbuzz.co.nz, the web page for Home Business New Zealand (shown in Figure 1-1), provides info, support and resources to home businesses throughout New Zealand. Lots of articles and handy links make this site a great reference.

- ✓ www.smallbiz.nsw.gov.au has a great home-based business resources page, handy even if you don't live in the rarefied atmosphere of New South Wales.

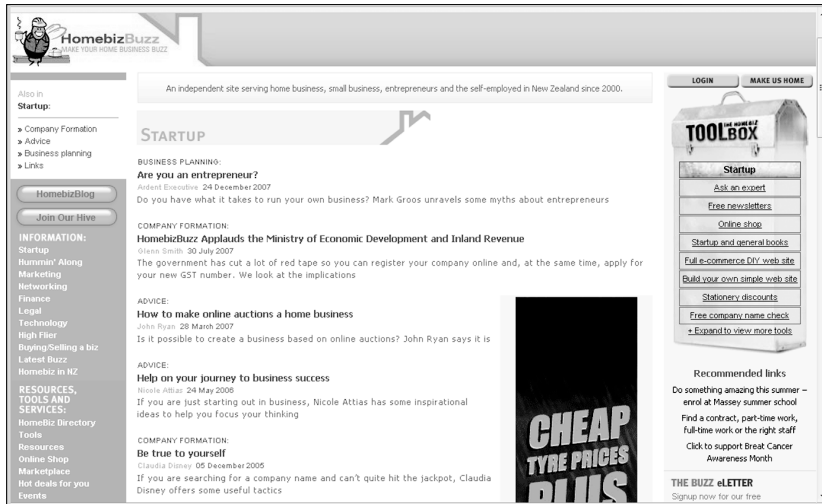


Figure 1-1: Homebiz-Buzz is one of many great home business websites.

Working for Yourself — Reality Strikes

An acupuncturist once said to me: ‘When you work for yourself, you work for a real bastard. No holiday pay, no sick pay, no bonuses — long hours, filthy pay and no promotion.’ As I lay on the couch, needles sticking out of my ears and my navel, I reflected on my 60-hour weeks and pitiful bank balance. I had to agree with him.

Teetering on the edge

As the years have passed by, I’ve developed a sniffer-dog instinct for which businesses are likely to succeed, which are going to struggle and which are doomed to fail. Although I usually wish I wasn’t so chillingly accurate (especially when I predict failure), occasionally life delivers a surprise — the success of an overpriced French restaurant with a mad chef, or the survival of a bed and breakfast in the back of beyond.



Running a business is an inherently risky game. Sometimes, this risk makes things exciting, and other times, just plain old scary. Of course, business success is a fantastic feeling but, on the other hand, failure can be quite catastrophic. You can lose your house, your job, even your family, all in the one hit, not to mention the disillusionment of having precious dreams crushed by harsh reality.

How well you cope with risk depends on your age, personality and health. Certainly, investing your life's savings in a new venture is infinitely scarier when you're 60 than when you're 30. I recommend you always minimise risk by keeping a tight control on your finances, a topic I explore in detail in Chapters 7 and 8.

Working night and day for little pay

Unfortunately (or maybe fortunately), the brilliant business ideas that earn \$10 million in the first year are very few and far between. For most people, the only sure-fire way to succeed is to work looong hours taking the roles of cleaner, bookkeeper, salesperson and managing director all in one.

Aussie ABS stats (and I imagine that things are pretty similar in New Zealand) show that 45 per cent of self-employed owner operators work more than 35 hours a week, and another 17 per cent work 50 hours a week or more. (Even as I write this paragraph, it's nine o'clock on a Sunday evening, and a new working week arrives afresh tomorrow morning. Sigh.)



One of the hardest things about being self-employed is staying motivated. Not just in the first year where everything is interesting and different, but year after year after year. Of course, as your business grows, you can hopefully employ staff to help (Chapter 6 talks more about becoming an employer). Ideally, you can arrive at a point where your business earns money, even if you're not working in it every day of the week.

On the other hand, I know lots of people who only work at their business part-time, yet they're very successful, including artists, counsellors, party-plan distributors and freelance writers. Even if you work just one day a week on your business, you can derive an enormous amount of pleasure from it. After all, success is measured in many ways, not just in dollars.

Weathering feast and famine

Sometimes, the highs and lows of small-business profits make even the government railway services look reliable. A bumper year, and the bank account is rosy. Then you lose a client or two, interest rates go up, and before you know it, you're wondering how to pay the rent.



Some consultants advise you not to expect to make any money at all in your first year of business, and to have savings put aside to pay for your living expenses during this time. Such advice is prudent, but the truth is that sometimes businesses take even longer than a year before they make a profit, and even businesses that have been cruising along happily for years can strike hard times.

I used to find the feast and famine of running my own business very stressful, but I'm getting better at managing this dichotomy as time goes by, even managing to put money aside when things go well. How you cope with the effect of this insecurity depends not only on your personality, but on your family commitments as well.

Getting the Timing Right

Weighing up the good and the bad about being self-employed is tricky enough, but when you add the 'you' factor into the mix, you may decide to rethink some issues. Not only do you have to consider your own skills and expertise, but you have to ponder, too, whether you have the timing right: The right timing for the business idea, the right timing for you and your family, and the right timing for the business environment.

Timing it right for your idea

An experienced entrepreneur once said to me: 'If real estate is all about position, position, position, then business is all about timing, timing, timing.' He's right of course. If you were selling Edwardian corsets at the turn of the 20th century, chances are your business would be successful. Try to sell the same corsets for a living these days, and it would be slim pickings indeed (although your customers would be a pretty interesting bunch of folk).

If you're not sure whether now's the right time to start your business, consider the following:



✔ **Fickle fashions:** Humans are capricious creatures and what's hot today may be ice-cold tomorrow. Whether the latest craze is kids going nuts about the latest Disney action doll or adults getting worked up about a big sporting event, make sure you're not the one who suffers when everyone gets bored and tired. Try to jump on the bandwagon near the beginning or during the build-up — don't leap in at the peak.

✔ **Industry trends:** The difference between a trend and a craze may seem hard to pick at first, but the difference is both real and important. Be aware of trends in your industry and capitalise on opportunities. For example, the long-term and growing interest in organics and natural lifestyles is a positive trend that indicates a whole host of business opportunities.



✔ **Lead times:** If you've got a long lead time for your project, research the project well. I remember a client who decided to build storage units in a busy country town. The demand seemed guaranteed, as there weren't any at that time. Three years later (after prolonged development applications through council and a \$250,000 construction), the units were ready. The only snag was, two other developers opened units that same year, creating a glut of supply and fierce price wars.

✔ **Bleeding edge or cutting edge?** You may love being leader of the pack, but there's no point creating a product or service that customers aren't ready for yet.



✔ **Seasonal variations:** If you're planning a business that is highly seasonal, factor this aspect carefully into your timing when making your business plan. Give yourself time to plan carefully for the peak season so you can take full advantage of that period.

Timing it right for you

Of course, good timing is not just a question of whether the outside world is ready and eager for what you have to offer. Good timing is also about how ready you are, personally.

- ✓ **Experience:** For example, if you're looking at buying a nursery, do you have horticulture training as well as hands-on retail experience? If you're considering going freelance as a consultant, do you have enough consulting experience behind you? In Chapter 2, I explore the issue of whether to start a business from scratch, or whether to buy an existing business. Do you have enough experience to plunge into this kind of business?
- ✓ **Planning:** I recommend you don't even consider starting a new business without first drawing up a business plan. In fact, creating a business plan is so important that I dedicate all of Chapter 3 to this very topic.
- ✓ **Capital:** Don't start a business without enough capital behind you. Starting a business with insufficient capital is like competing in a marathon when you didn't sleep the week before.
- ✓ **Age, health and stamina:** Age can be a factor at both ends of the spectrum. Most 18-year-olds are unlikely to have enough experience to cope with running their own business. On the other hand, a 65-year-old may be short on motivation, ambition and energy, especially for new ventures requiring huge hours and input.
- ✓ **Your family life:** Don't start a new venture without consulting your family and enlisting their support. The backing of your partner is vital during this time. (Resigning from your regular job to become a self-employed mural painter the week before your wife is due to deliver twins isn't likely to go down well.)



Timing it right for the economy

No business is an island but, rather, functions as an organic part of the world around it. Imagine owning a fantastic, go-ahead café in the Pilbara region of Western Australia or Taharoa in the North Island of New Zealand. However cleverly managed, these cafés are at the mercy of whether local mines expand or shut down, whether the economy is booming or in recession, and further still, world commodity prices.



- ✓ **Industry-specific events:** Be alert for changes in your industry that may affect the viability of your business such as additional licensing requirements, new government regulations or major shifts in available technology. For example, with the current changes in liquor licensing in Sydney, the time is ripe for opening boutique bars and bistros.
- ✓ **Tax reform:** Many a good business has been sent to the dogs because of tax reform. Think of a political football such as the film industry, which has been subject to major tax law changes every year or so for the last decade in both Australia and New Zealand; even iconic movies such as *Moulin Rouge* were suddenly deemed to be tax minimisation schemes. Keep your ear to the ground and listen out for these changes within your industry network and via the media, *before* they happen.
- ✓ **Interest rates:** Some businesses are more affected by interest rate fluctuations than others. Importers and exporters, builders, tradespeople and real-estate agents are just some of the industries that are affected, as well as any business with large borrowings. If you're likely to be affected by interest rate changes, look carefully at economic indicators and plan accordingly.
- ✓ **Recessions:** Even the most successful business can sometimes have a bad year, or a couple of bad years, especially in times of recession. Such businesses rely on profits built up over previous years to see them through. However, if you start a new business in the middle of a recession, ask yourself whether you're going to be able to finance it until the good times arrive?



Stay abreast of current economic trends and how they may affect your business plan.

Staying Safe or Inventing the Wheel?

Businesses fall into three broad categories. The first type of business is one that has been done before, and therefore has been tried and tested. The second type of business is one that finds its own niche, thereby doing something especially tailored to a small group of customers. The third type of business is one that launches an entirely new concept on the world.

Playing it safe

Probably the safest and most reliable approach is to go for an *established* kind of business; one that lots of people have tried and succeeded in before you. Most retail shops and many service businesses fall into this category — for example, bookshops, florists or hairdressers, builders, electricians or plumbers.



TIP

One good thing about going into an established business is that you can find out what to expect in terms of sales, profit margins, expenses and more. However, with established businesses, success depends not so much on the strength of your ideas, but more on good business sense. You have to work out what you're ably equipped to do differently from your competitors so that you attract customers and keep them as your own.

If you choose to go with an established kind of business, you may prefer to purchase an existing business, rather than starting from scratch, a topic I explore further in Chapter 2.



TRUE STORY

Stick to the knitting

I recall a client of mine, a highly experienced business manager, who purchased two hairdressing salons as an investment. Despite relatively sound business practices, both salons floundered, simply because my client didn't have any experience in the hairdressing industry: He failed to understand that most customers didn't come to the salon looking for value for money, but came looking for a chat and a confidence boost; he didn't appreciate that most hair stylists expected 'cash' wages as part of their weekly pay; he had difficulties maintaining hygiene and dealing with money going missing out of the till.

My client made an elementary mistake in that he didn't stick to doing what he did best.

My point? If you've been a journalist all your life, you're going to be much better publishing a magazine than opening a florist shop. If you've always worked as a landscape gardener, you're probably ill advised to open a bookshop.

Stick to what you're good at: Business is competitive enough without trying to do something that you have little or no experience in.

Finding your own niche

The next type of business is called a *niche* business. Developing a niche means doing something specialised and catering to a small but (hopefully) dedicated market. A niche business can cover anything from manufacturing custom guitars to producing hand-stitched silk lingerie, or from designing permaculture gardens to cooking special food for diabetics.



The best thing about niche businesses is that you can start off on a small scale. Starting small means low risk, less expense setting up and an opportunity to try out your idea and test the response. A great way to promote a niche business is often through web advertising, where developing your own website can mean generating business all around the globe.

Going out on a limb

The last type of business is called the *entrepreneur* type, reserved for new inventions or market concepts. Untested and unknown, this type of business can occasionally experience resounding success but (sadly), more often, spectacular failure. (I still feel a pang whenever I remember my friend's invention of a solar-powered windmill-hat, a great idea but scarcely a hot fashion item.)

With the entrepreneur type of business, you're taking a gamble. Though the chance of failure is high, if you do succeed (and success is always possible), the rewards can be huge. I talk lots more about market research, and how to find the products or services that customers *really* want, in Chapter 5.

Getting the Government to Help You

You're paying out all these taxes, so you may as well get something back. The quality of the advice is luck of the draw: Some advisers are great, others are a bit dodgy. However, most government advice is free and can often be just what the doctor

ordered. Here's a summary of what advice is available and where to find it.

- ✔ **The wild west:** Western Australia abounds in Business Enterprise Centres. They offer advice on finance, marketing, business planning and regulations. Phone 1800 199 125 or go to www.sbdc.com.au.
- ✔ **Tassie tigers:** Fourteen Business Enterprise Centres are available in Tasmania, offering business information services and a range of free seminars. Visit www.beca.org.au for a list of addresses and contact phone numbers.
- ✔ **The Top End:** The Territory Business Channel (www.tbc.nt.gov.au or phone 1800 193 111) provides business planning advice, information about various Department assistance schemes, and business name and licence information. Darwin also sports a Business Enterprise Centre — visit www.becnt.com.au or phone (08) 8923 6100.
- ✔ **Brash and brazen:** The NSW Department of State and Regional Development is a great central resource. Phone 1300 134 359 or visit www.smallbiz.nsw.gov.au. From this website, you can link to over Business Enterprise Centres (BECs) across the state.
- ✔ **Eureka and Ned:** Business Victoria is a central organisation based in Melbourne offering information and referral services for small business. An excellent website at www.business.vic.gov.au offers links to a whole load of business services, including business mentoring. Alternatively, phone 13 22 15 to get through to the Victorian Business Line.
- ✔ **Don't you worry about that!** The best source of info in Queensland is www.business.qld.gov.au (phone 1300 363 711). Here you find a whole range of online resources, plus access to training seminars and workshops.
- ✔ **The lost city:** ACT Business & Industry Development (www.business.act.gov.au) offers small-business advice and also administers the Epicorp Incubator Program, which assists in commercialising scientific inventions. Queanbeyan, too, has a Business Enterprise Centre — phone 02 6297 3121. Alternatively, Business ACT (1800 244 650) offers advice on licences and permits, small-business courses and government incentives.
- ✔ **Home of the white pointer:** The Department of Trade and Economic Development (visit www.business.sa.gov.au or phone 08 8303 2400) in South Australia offers great

small-business support and advice, including several Business Enterprise Centres, Regional Development Boards, a Centre for Innovation and support for local suppliers.

- ✓ **Across the Tasman:** The main online resource offered by the NZ government is www.business.govt.nz, but as well as this resource, 32 walk-in business centres are dotted around the country (known as the 'biz' network). Business advisers at these centres can help you access information, contacts, training and advice. The free phone contact for the business centre network is 0800 424 946.

For more about business planning, and other business resources, skip ahead to Chapter 3.