A practical guide for small business owners

- Securing finance
- Managing finance
CONTENTS

02  Turn yourself into an expert
    Why small business owners have to be financial managers

04  Banking on credit
    Must-haves for bank financing; vital info checklist; equity vs loan capital; why banks decline loans

12  Creative financing
    Where else to find capital; the cost of forex; talking terms; BEE funding

16  Getting to know you
    Improving your relationship with your bank; helping the bank to understand your business

20  Kick-start your business
    Buying a going concern; franchising vs growth; put yourself in the seller’s shoes; valuing a business

24  Cleaning up your credit
    Dealing with bad debt; bankruptcy – a last resort; avoiding debt stress

26  Put your bank to work
    Banking online; connectivity basics; balancing the costs of connectivity

32  The taxman and you
    Choosing a tax professional; registering for VAT; VAT basics; typical tax mistakes; travel allowance checklist; eFiling

38  Analysing your vital statistics
    Using statistics to reach your goals; useful tools; identifying trends; business issues

42  Smart relationships
    Choosing the right ISP; paying by cell phone; using the Internet as a business tool; online financial management

46  Financial glossary of terms
    PLUS where to learn more – must-see websites and useful contacts

18  Wind beneath your business wings
    The ups and downs of angel investors; local options; Raymond Ackerman – a South African success story

28  As easy as 1, 2, 3 …?
    Accounting basics; the double-entry rule of thumb; making your money count; tools to build a budget
“Finance, schminance …”

… heard it all before? Securing finance and managing it wisely are two of the toughest challenges facing small business owners in South Africa. Are you reaching for the headache pills already? Then read on.

If approaching the bank for a loan or any kind of finance leaves you cold, there are some simple solutions to ensuring that the buck doesn’t stop here.

This Small Capital handbook is the third in a series of practical guides that provides essential advice and need-to-know info for small business owners in South Africa.

This issue explores why strong financial management is key to securing your business’s future. It covers everything from finding bank finance, tackling investors and approaching government, to managing debt, credit and financial relationships with banks, suppliers and customers – just what you need to avoid that financial hangover.

Send us your details and we’ll put you on the Small Capital mailing list to receive future editions for FREE. Subscribe online at www.words-worth.co.za/smallbusiness.
Turn yourself into an expert

You run a business that is in the business of making money
– but are you managing your own finances properly?

Sound financial management is part of everything that you do. Whether it be sales, production or personnel, good financial management helps you to deal with each of these functions efficiently.

All your activities have a financial implication – directly or indirectly – and good organisation is a must if you want your business to be profitable. You need to know exactly how your business is doing and how successful you want it to be.

Having good systems that you can manage easily and effectively help you to cope with unexpected demands and deal with the everyday running of your business in a planned manner.

Proper financial systems enable you to:
- Keep track of how your business is doing.
- Manage cash flow, workflow and meet deadlines.
- Monitor how well things are being done and establish levels of customer satisfaction.
- Improve your ability to do things right the first time.

Legislative issues are a major challenge for small business owners in South Africa, and proper systems help to ensure that the basics are taken care of so that you can get on with the business of doing business.

For example, you need to develop a good tax and Unemployment Insurance Fund (UIF) system to manage the daily running of your business and to enable you to retrieve information as quickly as possible. If SARS requires information on your employees you have to be able to find and provide the correct PAYE and UIF information (as well as your own) almost immediately. Not keeping the necessary employee records, or not being able to access them easily enough, can have harmful ramifications for your business.

In a nutshell, financial management helps you

---

Financial manager vs bookkeeper

A financial manager is concerned with planning, policies, controls and procedures, while a bookkeeper records normal business transactions in accordance with the instructions established by an accountant. The accountant may help to select and train the bookkeeper as well as provide technical supervision. The accountant normally reports to the financial manager, but in the case of a small business, the same person might fill both roles. The financial manager could be the business owner or an outside expert, depending on the size of the business, its financial complexity and the capabilities of the owner.

In many instances, the small business owner handles day-to-day financial management and uses an accountant a few times a year to deal with more specialised tasks such as preparing year-end statements and expanding the business. Most office software systems include financial management tools that are ideal for small business owners. For example, Excel spreadsheets can be used to prepare sales forecasts, income statements and cash flow projections. For more information on financial and accounting templates visit [http://office.microsoft.com](http://office.microsoft.com).
to obtain the financial statements you need to measure your company’s success, meet government requirements and gather facts for making sound management decisions.

It also allows you to analyse how profitable certain activities are, so that you can take advantage of those that make more money for your business, and eliminate those that don’t.

As a small business owner, your responsibilities include keeping records, preparing budgets and forecasts, cost accounting, exercising internal controls, preparing government reports (where applicable), obtaining and monitoring insurance and data processing.

Other important functions include analysing data and determining how your company is performing, making recommendations about whether to expand or downsize, as well as coordinating your personal financial and tax goals with those of the business.

Your money management systems should enable you to:

- Handle company finances with the aim of maximising profits while maintaining liquidity and financial stability, with or without increased sales.
- Protect company assets from employees and outsiders.
- Plan financially to achieve company and personal goals, including non-financial company goals (such as having the best premises you can afford or offering the best quality products) and owner goals such as security, retirement, or leisure activities.
- Prepare financially for unknown developments such as new technology, competition and customer needs, changes in the economy and legislation. This also includes planning for the continued life of the company.

What does a financial manager do?

As a small business owner, your responsibilities include keeping records, preparing budgets and forecasts, cost accounting, exercising internal controls, preparing government reports (where applicable), obtaining and monitoring insurance and data processing.

Other important functions include analysing data and determining how your company is performing, making recommendations about whether to expand or downsize, as well as coordinating your personal financial and tax goals with those of the business.
It is said that you need money to make money, and many small business owners in South Africa find themselves in this Catch 22 situation when applying for finance. It can be a slow, frustrating and sometimes disappointing process.

There are four main reasons why South African banks are wary of granting loans to small business owners.

1. Your contribution (or capital injection) into the business speaks volumes. If you have contributed little or no equity to the business, banks will be wary of granting you a loan. Remember that banks don’t finance businesses, they finance operating assets and working capital. So if your business is under-capitalised it may be difficult for you to raise a bank loan.

2. Your small business may not have a structured balance sheet as many SMEs typically do not keep accurate books.

3. Your business might not have a strong cash flow. The bank must be satisfied that you will be able to repay the loan, but this can prove difficult if your cash flow is strained.

4. You may lack the necessary business management skills to run a small business.

Who can help?

- Business consultants situated in Standard Bank branches across the country.
- Standard Bank website: www.standardbank.co.za.
- Visit the BRAIN website at www.brain.org.za for a list of other financial institutions and what they offer small business owners, or call BRAIN on 0860 103 703.
usual turnaround time for a small, simple request from an existing customer, is 48 hours. However, in general, a request for an application for a new customer, where financial statements need to be assessed, may take longer.

If you apply for a more involved, less straightforward loan, such as Khula credit, the process can take up to three or four weeks. For more information on Khula see page 14.

Some banks have specialised business managers who are specifically trained to provide assistance and process finance applications for small business customers.

For more information, visit your local Standard Bank branch or call the helpline for business banking customers on 0860 012 345.

### Constraints facing SMEs

The unfortunate reality is that there are many constraints facing small business owners who need finance. The main problem is that as talented as you might be in a particular field, you might not have all of the competencies needed to ensure the viability of a small business. There is greater potential for such a business to fail, which is why banks are often reluctant to approve a loan application.

This is exacerbated when:

- The application shows a lack of feasibility or pre-screening.
- The business plan is poor – possibly as a result of being drawn up by a consultant, with little input from the owner.
- The proposed business plan is based on unsustainable margins.

In general, banks prefer to offer asset finance rather than a general business loan, because they can use the asset itself as part of the collateral. If you fail to pay back the money, they can take back the asset, and in this way their risk is reduced.

### Must-haves for bank finance

**You need collateral** – Before lending you money most banks will ask for collateral or security. Collateral is any asset that you own and promise to hand over to the lender if you cannot pay them back. This includes a house, a building, investments, savings or any other asset. Unfortunately, the smaller your business, the more collateral the bank may demand, as you are perceived as being a high risk. The irony is that the smaller you are, the less collateral you are likely to have.

**Be patient** – One of the most frustrating things about applying for finance is that there can be long delays in processing your application and granting a loan. Ensure that you provide all the necessary documentation to reduce the time taken.

**Clean up your credit record** – If you have a bad credit record, even if it dates back years, it works against you when you apply for assistance from a bank. Before you even apply for a loan do everything you possibly can to settle your old debt and clear your name. Be totally open and upfront about it with your bank. See page 24 for tips.

**Be flexible** – The four main banks in South Africa all have special divisions for small businesses. Even though banks regard lending to small businesses as risky, they are required by the Financial Sector Charter to promote this sector.
Save time – and money

The documents required for loan applications vary according to the type of business that you run, and compiling these can be a job in itself. That’s why, when you walk into a bank, you should be prepared for any eventuality. Use this checklist to ensure that you have everything you need for the bank to process your loan application quickly and efficiently.

<table>
<thead>
<tr>
<th>Sole proprietors and sureties</th>
<th>Close corporations</th>
<th>Companies</th>
<th>Trusts</th>
<th>Partnerships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copy of ID document</td>
<td>Registered founding statement (form CK1) or amended founding statement (CK2)</td>
<td>Certificate of incorporation</td>
<td>Trust deed</td>
<td>Partnership agreement (if it applies)</td>
</tr>
<tr>
<td>Proof of income</td>
<td>Annual founding statements/management accounts*</td>
<td>Certificate to commence business</td>
<td>Letter of authority</td>
<td>Annual financial statements/management accounts*</td>
</tr>
<tr>
<td>Signed statement of assets and liabilities</td>
<td>12-month cash flow forecast</td>
<td>Certificate of change of name (if it applies)</td>
<td>Annual financial statements/management accounts*</td>
<td>12-month cash flow forecast</td>
</tr>
<tr>
<td>12-month cash flow forecast</td>
<td>Memorandum and articles of association</td>
<td>12-month cash flow forecast</td>
<td>Copy of ID documents</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Annual audited financial statements/management accounts*</td>
<td>Copy of ID documents</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>List of directors/shareholders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12-month cash flow forecast</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Copy of ID documents</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* If company is older than six months.
Check list of vital info and documents

It takes patience (and paperwork!) to apply for a loan, and it helps to be prepared and well organised when compiling the essential documents.

Some South African banks use the behavioural scorecard method to work out how much they are prepared to lend you.

This system calculates your credit rating by analysing patterns of behaviour in how you have conducted your account. For example, if you have issued a cheque without the funds to cover it, this will work against you in your scorecard rating. If you first informed the bank that this might happen, it could work in your favour.

Whether you are a first-time loan applicant who has no history with the bank, or an existing customer whose requested amount exceeds what the bank would normally be willing to grant, the type of information required for the application are more or less the same.

You will need to supply:
✔ Your business address, telephone and fax numbers and email details.
✔ Income tax and VAT numbers.
✔ Annual turnover figure.
✔ Two trade references.
✔ Description of your business, including product or service offered, customer and competitor information, how you get your product/service to your customers, etc.
✔ Type of business entity, eg, sole proprietor or close corporation.
✔ Details of existing bank accounts or credit with the institution.

Use the table opposite as a checklist for additional documents needed.

Reading the small print

Once a loan is granted, the terms and conditions of the agreement are confirmed in writing and a letter of grant or offer is signed. The letter of grant includes:
• The size of the loan.
• Its intended use.
• Collateral details.
• Details of the principal debt.
• Instalment details.
• Fees and interest.
• General terms and conditions.

If you feel that you are drowning in legalese when reading these agreements, you’re not alone. Ask your business banking consultant what the small print means. Banks and their staff are required by the Financial Advisory Intermediary Services (FAIS) Act to help customers understand the documents they are signing and what the possible implications are. Don’t be afraid to ask.
There are several finance options available to entrepreneurs who want to grow a small business into a bigger one. And choosing the right type of finance could determine whether you sink or swim.

There are two main sources of finance open to small business owners: loan capital and equity. Equity is money invested in the business from either your savings or your family and friends. Formal equity may come from public or private venture capitalists, business partners or public stock companies.

Equity finance is the capital granted by a person or institution that takes a share of your company in return for its money. This is normally used for small businesses that have good prospects for fast growth and above-average returns.

To attract equity finance your business needs to have a good track record or a competitive product or service. You are also required to have the experience and ability to run your own business. Investors will want to see growth potential and have a good idea of what the return on their investment will be.

There are disadvantages to financing a small business with equity. Firstly, you have to share ownership with the investor. Secondly, it can prove costly, as you also have to share the profits.

Loan capital is money that you borrow from personal contacts, banks or credit lenders, usually in the form of personal loans, business loans, credit cards or other lines of credit. The main disadvantage of loan capital is that the...
repayments negatively affect your cash flow each month. Therefore, banks will usually advise you to apply only for the amount of finance that is actually needed and to focus on appropriate capitalisation in terms of the life cycle and needs of the business.

Any debt is risky – if you cannot cover the monthly repayments, the financier can take legal action against you.

**Personal loans** – There are many lending institutions that offer personal loan products, all with their own terms and conditions. Shop around and get a number of quotes to ensure that you find the best interest rate and lowest monthly repayments. Visit [www.FasterInfo.com](http://www.FasterInfo.com) for links to some of the country’s most trustworthy – and cost effective – lenders.

**Business loans** – These are the most likely sources of credit for SMEs. Banks require a business plan and cash flow projections in order to evaluate the viability of the business for which you require the loan.

**Credit cards** – These come in useful when businesses wish to procure goods online, or need to pay immediately for goods and services and do not want to carry cash. They also provide a transaction history for your business. Credit terms vary and most banks offer similar options for paying the whole amount back at the end of the month or making regular payments over a set period, based on a percentage of the total borrowed. Standard Bank offers a second credit card for which no annual card fee is charged, as well as a garage card that can be linked to the credit card.

Private equity is capital that is put into a new or growing business in return for part-ownership of the business and a share of the profits. Typically, a private equity or venture capital investor does not want permanent ownership of your business. They want to “exit” your business within five to seven years by selling the shares you gave them at a good profit.

### Private equity – heads or tails?

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>You don’t need to pay any interest as you would with a loan.</td>
<td>Your business will be expected to generate substantial profits so that equity partners earn good dividends on a regular basis.</td>
</tr>
<tr>
<td>Your private equity partners could bring new networks, useful contacts and management expertise to the business.</td>
<td>You will be required to regularly generate detailed information on your business’s performance and prospects.</td>
</tr>
<tr>
<td>The involvement of private equity in your business usually makes it easier to get other forms of finance, should you need it.</td>
<td>The cost of complying with financial regulations can be high.</td>
</tr>
<tr>
<td>It focuses your business’s objectives and ensures structure, discipline and a stable base for strategic decision-making.</td>
<td>It requires you to give up a share of the business and share decision-making and profits.</td>
</tr>
<tr>
<td>The capital injected strengthens your balance sheet and reduces gearing (the proportion of debt relative to equity).</td>
<td>The demand for high returns may introduce the danger of short-term thinking.</td>
</tr>
</tbody>
</table>
Collateral clarified

Collateral – or the lack thereof – is viewed as a barrier to finance, and with good reason. Banks have a responsibility to protect depositors’ funds and any entrepreneur applying for a loan opens the bank to risk. Collateral provides security should a loan not be repaid.

There are two kinds of collateral: traditional and non-traditional. Most banks prefer traditional collateral, which includes assets such as property, fixed deposits, shares or supported guarantees.

Collateral “free” loans
Khula credit indemnity supports most SMEs that cannot provide collateral, as long as the business owner meets certain criteria. You will qualify for a Khula loan if:
• You are the full-time manager of the business.
• You are a South African citizen.
• You make a 10% owner contribution.

See page 14 for more information.

Historically, non-traditional collateral has been denied to small business owners. This includes the accumulation of wealth and/or assets. However, in the current business climate, new opportunities are opening up, especially for black-empowered businesses.

How will you measure up?

To qualify for bank finance SMEs are usually assessed using four main categories:

**MANAGEMENT**
- Profile of entrepreneur: This demonstrates your background, qualifications and expertise.
- Management, financial and marketing skills: How you will bring in new business.
- Technical qualifications: These give the bank an idea of your technical expertise.

**FINANCIAL**
- Owner’s contribution: The more you put in, the better your chances.
- Realistic projections: These indicate the likelihood of business success.
- Debt carrying capacity: How much you can realistically borrow and pay back.
- Assets: These can be used as collateral.

**SECURITY**
- Tangible collateral: Property or investments.
- Intangible collateral: Suretyships, eg, by member/s of the CC.
- Personal assets: You can use these to act as security for a loan.

**ENVIRONMENTAL**
- Industry risk: Is there a risk of pollution in the area where your business is based?
- Location: Is it convenient for your customers?
- Competition: Where are your competitors and how saturated is the market?
- Entry barriers: Includes legislation around franchising, issues relating to how long it will take to build up your reputation and the costs of entering the market.

- Cash flow: The stronger your cash flow, the less risky your business looks.
Other types of loans
Most local banks offer other types of funding that include:

• Secured finance – in the form of asset finance, Khula guarantees and other traditional banking products.
• Unsecured finance – offered to the borrower in absence of security on a loan, for example in the form of an overdraft. This type of loan carries a higher price as the bank needs to cover itself for possible losses in the future.
• Mezzanine finance – this may take the form of convertible debt, senior subordinated debt or preferred equity. Mezzanine debt is actually closer to equity than debt, in that you relinquish some ownership of the business and forfeit possible future profit. Because mezzanine finance is not classified as pure debt or pure equity financing, it is difficult to classify. If you become insolvent, the repayment of mezzanine debt is secondary to that of an overdraft or other primary debt.

Other forms of credit
There are various credit mechanisms in place to give SMEs access to finance – one of which is contract finance. A small business might be awarded a contract to do a particular job, but might not be able to access the finance needed to start the work. Contract financing, as supplied by Standard Bank, is when the bank enters into a cash flow lending agreement off the back of a firm contract. A specialist team reviews the contracting environment and assesses applications on an individual basis. As the business performs on the contract, so the bank pays regulated amounts into a controlled account.

The bank will also negotiate elements of the contracting environment to facilitate greater access for BEE suppliers and enhance their sustainability.

Leveraged finance provides empowerment finance to SMEs in the form of acquisition and expansion capital. When supplied by Standard Bank, this takes the form of structured deals normally ranging from R1 million to R25 million. This funding also includes advice on identifying a BEE partner, legal documentation to facilitate a transaction and advice on suitable tax-efficient funding structures, such as the formation of a new company or a preference share structure.

For information on leveraged finance and other business banking solutions visit www.standardbank.co.za, call 0860 012 345 or visit your local Standard Bank branch.

Reasons why banks decline loans
• Business is unsound, risk is too high, or the bank cannot determine the level of risk.
• Insufficient security.
• Lack of owner commitment.
• Business plan does not provide adequate information.
• Purpose of loan not justified.
• Poor character or lack of suitability of owner.
• Passive investment – for example if you want to apply for a loan with the bank and your grandmother signs surety, she has a passive interest. Banks will regard it as reckless to risk the livelihood of your grandmother if the business does not work out.
Talking terms

New and small businesses are not really in a position to be generous with credit. For example, if you import products (such as the jewellery company mentioned in the case study opposite) you need cash on hand to pay duties and taxes on products when they come through customs.

The ideal way to keep customers happy without getting too deep into the debt trap is to charge a deposit upfront (eg, 50%) with the balance due on delivery. Most small businesses can get away with demanding shorter terms in return for lower pricing and superior service.

You may, however, encounter difficulties when supplying larger businesses, which often have long and complicated supplier payment procedures. Balance the value of their business with the cost of carrying the debt.

Also bear in mind that if you choose to carry stock to speed up the delivery process, you need to factor in the actual cost of holding the stock, eg, warehousing and storage fees, and then build this into your pricing.

As a small business, try to limit your terms to 14 days maximum, and make sure these terms are understood and agreed upon by your customer before a sale is made.

Who says financing your business is not creative?

There may be some good reasons why you don’t want to use a bank as a source of funds, and there are other ways of going about it. How you do this depends on how much you need, and it pays to be a little creative.

There are a number of financial sources available to you over and above the traditional ones. Start by taking a closer look at your business itself.

Inventory financing

This is a way of borrowing cash by using your inventory as security. Manufacturers of consumer products, which tend to form a large portion of their assets, often make use of inventory financing.

Inventory is typically made up of merchandise, raw materials and finished and unfinished products that have not yet been sold. These are considered liquid assets since they can be converted into cash quite easily. There are various means of valuing these assets, but to be
conservative the lowest value is usually used in financial statements.

**Strategic alliances**
Another option is to join forces with a company that complements your business, and agree to leverage off each other’s strengths in order to achieve a common goal. For example, a small travel agent and a tour operator could work together to obtain and provide services to new business prospects. The travel agent could market the tour operator’s itineraries on their website, while the tour operator could conduct the tours.

**Convertible debt**
This is a term used to describe debt financing that has a feature allowing the debt to be converted to equity, often at the option of the investor, in the event of a default on repayment terms. Other times the conversion feature can be granted as a “sweetener”, providing the investor with the option of converting debt into equity if results are good.

Whichever route you choose, remember that alternative financing options can be tricky. Unless you are an experienced business person, it is always advisable to use a trusted consultant.

---

CASE STUDY: The cost of forex

A local entrepreneur recently started a wholesale company (www.jewellerygallery.co.za) importing upmarket costume jewellery. Initial investigations at craft markets and boutique owners in KwaZulu-Natal showed a positive response. The products have since been launched in South Africa. One of the owner’s concerns, however, is how to manage the financial implications of selling a product in Rands after a delayed period, when it is initially paid for in forex. André Joubert, general manager of MWEB Business, responds:

“The obvious concern is that if you set your prices in Rands, changes in the exchange rate might mean you wind up paying more for a batch of products than you can sell them for. At the same time, you’d like to be able to offer your regular buyers consistent pricing in the local currency.

“Your best option is to investigate ‘forward cover’, a type of foreign exchange insurance that is available to businesses of any size. You pay a ‘forward rate’ today, which covers you for a set period against fluctuations in the currency tomorrow. It costs money, but this can be built into your pricing structure. The advantage is that it allows you to ‘fix’ your prices for extended periods, or at the very least, minimise the impact of changes in the exchange rate. You can therefore plan accurately, without any nasty surprises.

“Think carefully about how far forward you would like to cover yourself – the last thing you want is to be covered at a rate that is way in excess of the actual exchange. Your bank should be able to advise you on how to go about doing this.”

For more small business case studies, read the Real Business supplement in Business Day or visit www.realbusiness.co.za.
Sting in the tail for BEE funding

We all know that the government offers funding to black-empowered small business owners, but where do you apply and what is required?

If you are a BEE small business owner it can be a frustrating task finding information on how to apply for government funding. Accessing available online information is difficult, and searching the information super highway could quickly lead to cyber road rage! Many websites give a good indication of what government funding can do for your business, but offer no assistance on how to go about it. They also give no indication of what the criteria are.

However there is light at the end of the tunnel. There are two support agencies to which you can apply for funding, both of which are linked to the South African Department of Trade and Industry (the dti). They are Khula Enterprise Finance Limited and the Small Business Enterprise Development Agency (SEDA).

Khula was established in 1996 to facilitate access to finance for SMEs. Khula is a wholesale financier, which means that you do not apply to Khula but rather to your local commercial bank, retail financial intermediary or micro credit outlet.

Khula finance is a good option for business owners who have insufficient or no assets to offer as collateral. To qualify for a Khula-supported loan you will need to contribute 10% of the amount you want to borrow, either in cash or equipment that will be used in your intended business. Bear in mind that an annual 3% fee is required in advance for the duration of the loan. Khula also provides services to guide and counsel you in various aspects of managing your business.

Call: Toll-free helpline 0800 118 815
Email: helpline@khula.org.za
Visit www.khula.org.za or visit a business banking consultant at a Standard Bank branch.

Helping BEE SMEs

Standard Bank has dedicated Business Banking staff that assess the viability of SME customers. The bank also has a department dedicated to ensuring that BEE SMEs can apply for finance in an environment that fully understands their needs.

Each province has a BEE Champion to direct and drive BEE within the province, and to assist various bank branches to develop black business prospects and opportunities.

For more information visit www.standardbank.co.za.
**SEDA** is the dti’s new support agency for the development of small business in South Africa, and was formed through the merger of the NAMAC Trust and Ntsika Enterprise Promotion Agency. SEDA offices offer entrepreneurs help with business plans, technical advice and marketing, and information on exporting, tenders and incentives.

The SEDA website includes small business fact sheets that provide valuable guidance on various topics, including financial guidelines on:

- Writing a financial plan for your business.
- How to find finance, where to go.
- Preparing your business plan for presentation to a financial institution.
- How to tender for business.

Call: 0860 103 703
Email: seda@seda.org.za
Web: www.seda.org.za.

**Other options**

There are two main types of organisations specialising in small business finance – whether you are black-empowered or not:

1. **Those that lend directly to small businesses** – These organisations consider loans to businesses that would not usually qualify for a bank loan. They are less strict on the criteria involved, but are more expensive than bank loans. You can approach Khethani Business Finance (a non-profit organisation) New Business Finance (a commercial small business) and Business Partners (see website below).

2. **Those that make access to bank loans easier** – Organisations like Khula guarantee a portion of your bank loan while you provide collateral for the remainder. These companies take over the cost of screening applications and reduce the risk of lending through mentorship programmes.

Another option is venture capital, in which investors provide funds in return for shares in the business. After three to seven years, they usually sell their shares back to the original owner or to another investor. Venture capitalists usually expect a 30% return on their investment. For more info see the Business Partners website www.businesspartners.co.za.

**Assistance from the dti**

The Black Business Supplier Development Programme (BBSDP) is the dti’s cost-sharing, cash grant incentive scheme, which offers support to black-owned enterprises in South Africa.

The scheme offers small businesses funding for up to R100 000, and provides access to business development services to assist in improving their core business competencies and managerial capabilities.

You qualify if:
- You are majority black-owned (51% or more) and have a significant representation of black managers on your team.
- You have a maximum annual turnover of R12 million.

**How to apply**

Obtain the information brochure, application guidelines and an application form from the dti Customer Contact Centre. Complete the application form, attach a tax clearance certificate and submit it to the dti.

For more information contact the dti Customer Contact Centre on 0861 843 384 or visit www.dti.gov.za.
Getting to know you

Banks have changed in recent years and are not as cold and unapproachable as they may have once seemed. In turn, bank staff are encouraging customers to be open and honest about their small business needs.

Approaching your bank for expansion or any other kind of finance can be nerve-racking, but don’t let it put you off. A positive attitude will help you to start off on a good footing with your bank manager.

Ensuring that the relationship with your bank manager is open on both sides is also vital. Issues such as access to finance cannot be done in isolation and it is imperative that your business banker knows who you are and what your company does. A strong relationship is key to ensuring that an overall

Improve your relationship

- Be open and honest.
- Provide as much information as possible.
- Interview your bank manager to ascertain if he or she understands your business.
- Save time by providing information for your credit profile.
- Keep him or her informed of the developments within your business.
- Invite your banker to visit your premises.
solution is achieved in the ongoing process of financing your business.

Why forge a relationship with your bank?
In the past, banks in South Africa may have felt more like “Big Brothers” than business partners, keeping customers at an arm’s length and not seeming approachable at all. As a result, your interaction with your bank may have been limited to those times when you’ve stood at the bank manager’s door with your hat in your hands.

Fortunately, things have improved and these days banks welcome – in fact prefer – building a relationship with you. This has a number of benefits for both parties.

• **It helps to build up trust.** Your bank gets to know you and what you do. Today banks encourage customers to keep them informed of their business’s progress. You can do this by sharing your dreams – and financial results – regularly. This approach could make future interactions with your bank easier and quicker.

• **Keeping your eggs in one basket is a good thing.** By keeping all your business in one place, you can use your personal banking profile and existing relationship to benefit your business. Your bank will be able to more accurately calculate the risk of lending funds to you, while you will be in a better position to negotiate lower interest rates.

• **It makes better business sense for everyone.** If your bank knows everything there is to know about you and your business, it is easier for them to assess you. Remember that your banking consultant only knows what you tell him or her. The more you share, the more he or she can help you build up your business.

### Must-haves when working with your bank

- Ensure that you have updated financial information available, including a balance sheet, income statement, cash flow projections and management accounts.
- Is your business plan up to date? Does it show what you are trying to achieve and how you intend to achieve it?
- Show that you have the passion and commitment to make your business work. Believe in what you are doing and make the bank’s money work for you.
- Think of your bank as an investor. It has a stake in your business, so remember to treat it as you would any other stakeholder.

### 10 tips to help the bank learn your business

Supply your business banker with:
1. Videos and/or pamphlets of your business or products.
2. Your business plan.
3. A profile of your business and its founding members.
4. A paragraph on what your company does (keep it simple).
5. Information on your biggest clients.
6. Accreditations, certificates or awards.
7. All telephone, cell phone and fax numbers, email and website addresses.
8. Information on your closest competitors.
9. Your personal business background.
10. Compliance with relevant industry standards or charters, eg, companies in the building industry must have a strong management profile that includes BEE and a policy on providing access to housing for disadvantaged people.
Wind beneath your wings

We all wish for a fairy godmother, but did you know that one in 10 start-up companies in the United States have angels on their shoulders? And they could be heading your way soon …

Although not a widely known concept in South Africa, angel investing is one of the better-known forms of private equity in Europe and the United States. It normally takes the form of a loan or actual equity in the start-up company.

Angel investors who provide funding in return for an equity stake have usually been entrepreneurs or have enjoyed business success themselves. They are often wealthy private investors who put money into early-stage deals offered by new business owners and companies that need capital.

Unlike traditional venture capitalists, angels contribute smaller amounts to businesses in the formation phase. They also add non-monetary value by taking an active interest in operations, usually drawing on their own experience. Investments typically range from R10 000 to R500 000, with the “angel” expecting a return of five to 10 times the original amount within about five to seven years. Angels tend to be more liberal in their lending criteria than venture capitalists or banks.

Will SA go the same route?

Venture capital activity in South Africa is not the same as overseas. Here, investments are mainly tied into management buy-outs and mergers and acquisitions, none of which involve financing start-up companies. This is because major investors in South Africa are institutional; financial decisions are based on a more conservative model; and access to private equity through the Johannesburg Securities Exchange (JSE) is subject to rules and qualifications.

Not surprisingly, these institutions have a primary responsibility to their stakeholders and
cannot afford to take the same risks as the self-made millionaire angel investor. Regulatory restrictions also play a part – the American market relies on a sizeable amount of self-regulation (sometimes with disastrous results) whereas the local market has strict laws.

As a result South Africa was spared some of the excesses of the dot-com bubble, as was the equally cautious British market. However, South Africa still has a desperate need for start-up capital. The government has recognised this and supports initiatives in the SME sector, including the South African Venture Capital and Private Equity Association (SAVCA).

Currently, companies can approach angels for financial help but must adhere to the rules set by the regulatory bodies that govern them.

The ups and downs of angel investing

Angel investing can be risky as it is difficult to predict long-term returns. Once an angel invests in a start-up business his or her money may not be accessed for an extended period before the company goes public. As a small business owner you may not want to include someone else in your business because of the added financial burden if your business does not perform. On the other hand, it may be beneficial to involve an experienced angel investor who can provide advice on managing your business and who has additional resources that you can tap into.

Raymond Ackerman – a South African success story

In the late 1960s Raymond Ackerman, age 34, was unemployed after being fired from his position as general manager of Checkers.

He wanted to build his own corporation and had heard about a small Cape Town chain called Pick ‘n Pay, comprising three supermarkets and one small credit store. The owner wanted to sell it for R620 000, but Ackerman could only raise R130 000 from his bank. Ackerman’s auditor found 60 shareholders – each of whom put in capital ranging from R3 000 to R6 000. The deal was structured in such a way that half of the investment was equity and the other half a loan. The bank then provided the balance of the purchase price.

Ackerman had total control of the company. Initially he only had stores in Cape Town. A few years later he opened Boksburg Hyper, at great personal risk to himself and the company. The rest, as they say, is history.

Says Ackerman: “There must be a reason for taking risks in business and it must be a good one.”
Kick-start your business

If you want to get a business up and running in a hurry, buying an existing one offers some obvious advantages.

But take care, there are also pitfalls.

Buying an established business is one way to kick-start your ambitions. You can bypass the start-up phase and evaluate what you’re getting before you commit to it. Be aware, however, that the seller could be making the business look more attractive than it actually is.

You’ll need to put some serious work into assessing the real worth of the business. Be prepared to research the industry as a whole, how the markets operate, who’s who and any other factor that might impact on the business. Then, get to know the business itself.

One of the quickest ways of doing this is to write a business plan. This is also the most efficient way of ensuring that the company survives the change of ownership. Consider things like whether or not the staff are well trained and happy, and whether there are any pending changes that might affect profits. For example, is a new shopping centre about to be built on your doorstep, which may draw customers away from you?

If you’ve been through these steps and feel that you can make the same or more money than the previous owner, then you may well be on to a good thing. You’ll also have a great deal of ammunition when you apply for financial assistance to help purchase or expand the business. Provided you have done your homework and prepared a sound business plan, financing your purchase through conventional channels should be a formality.

For useful guidelines on purchasing a business visit www.standardbank.co.za, or www.brain.org.za or www.frain.org.za.
Family business Texies Seafood is the biggest independent retail chain of fresh and fast food seafood in the Western Cape. Management wants to expand, but doesn’t have the infrastructure to do so. The company has considered looking for an operational partner in Gauteng (preferably BEE), or creating a franchise system that will allow them to expand while adding value to the community. André Joubert, general manager of MWEB Business, offers a few words of advice:

“Franchising is not a quick fix. You would have to take a long-term view and accept that during the first few years it is going to cost, rather than earn, you money. For franchising to work in Johannesburg, you have to have a very strong franchising formula and be able to provide comprehensive guidance and training. You will also have to accept that you are no longer in the business of fish, but rather in the business of selling a concept to others and making them successful.

“In your current situation, you’re looking for support in order to expand in an all-new region. As a franchiser, you would be providing the support – not receiving it.

“Bear in mind that the logistics and costs involved in expansion – especially into a market as competitive as Johannesburg – can be enormous. First investigate ways of making better use of your existing resources. What other options are there to penetrate the Western Cape market and build awareness of the Texies Seafood brand? Are you sure that you have exploited all the opportunities in your own backyard? Your time and resources would be better spent focusing on this first, before expanding out of the region.”

For more small business case studies, read the Real Business supplement in Business Day or visit www.realbusiness.co.za.

What to choose?

If you are thinking of buying a franchise, first visit the Franchise Advice and Information Network (FRAIN) website. It offers invaluable information on how to go about becoming a franchisee or franchiser, which franchise to buy into and the legal ramifications of owning a franchise. You can also register your franchise on the website.

Visit www.frain.org.za or call them on 0860 103 703. Alternatively, contact the Standard Bank Franchise Desk on (011) 636 6573 or email franchising@standardbank.co.za.
Put yourself in the seller’s shoes

Don’t expect a seller to give away a hard-earned business.

Be reasonable and it is likely that a good deal can be struck.

When you consider buying a business, the first question to ask is why the seller wants out. Typical reasons usually include retirement, partnership disputes, personal relocation, family problems and concerns, the need for a change, illness or entering into another business venture. Assuming that you are satisfied that the sale is for legitimate reasons and that both you and the seller are honest brokers, it is only right that the seller receive a fair price for the business.

But what is a fair price? It is human nature for the seller to want to inflate the worth of his or her business. After all, he or she has probably shed blood, sweat, tears and no small amount of money on making it a success, and is entitled to a reasonable return.

There’s also the goodwill factor. Here you might want a lawyer or accountant to help quantify this rather nebulous entity. If the seller has set

The price is right … or is it?

The value of a business is a moving target, but you don’t necessarily have to hire a professional to do it. One of the best methods to use is the Income Multiple technique, in which the income of a business is subject to a certain multiple to arrive at a selling price.

Income (or “owner benefit”) = the total amount you can expect to extract or have available from the business, based upon what it has generated in the past. Calculate the income multiple as follows:

Pre-tax profit + owner’s salary (and benefits) + additional owner perks + interest + depreciation

Then choose a multiple to apply to this owner benefit figure. Small businesses typically have a multiple of between one and three. A one time multiple is best suited for those businesses where the seller is “the business”, eg, consulting businesses, professional practices and one-man businesses.

Companies that have a strong track record, repeat clients, historical pattern of growth, more than three years in business and perhaps some proprietary item or an exclusive territory, will sell in the three times ratio. Also consider the annual Return On Investment (ROI) that you can expect to achieve when buying the business – ie, the profit you’re likely to make by the end of a year, less the purchase price. Aim for a minimum 25% return.

Getting started:

• If you don’t know how to read an income statement, then learn.
• Work with your accountant to determine the true “owner benefit” of the business.
• Calculate the selling price (see left).
• Determine your investment level and ROI.
• Ask the seller how the asking price was established.
• Be certain that the business itself is right for you!
up a string of good relationships with customers, suppliers and investors, you need to quantify how much this goodwill is worth to you. Always bear in mind that you should only pay what the company is worth, and it is therefore in any buyer’s best interests to get an independent professional valuation. For more information and advice on buying a good business at a great price, see *Small Capital* Issue 2 (May 2005), pg 26-27.

**Ask yourself:**

**What are your goals, and will the new business help you reach them?**

**Do you have the skills to pull it off, and if not, can you hire them?** In small business, employees are usually loyal to the original owner and you could lose as much as 80% of your new staff within the first 12 to 18 months after the change in ownership.

**Who will help you run it?** Review all of the management personnel of the company you are thinking of buying. If they are not people you would normally consider hiring, don’t keep them. Remember to include this in your sale agreement to avoid legal problems later.

**Improve your chances – hire a lawyer**

When buying an existing business, you can only benefit by having professional legal help. Use a lawyer to draw up the agreement and include the following:

- Conditions of the sale agreement.
- Detail of accounts receivable.
- A list of assets.
- A list of rights to business and trade names.
- Details of existing contracts and how these slot in to the business.
- An effective date of sale.
- The price for the goodwill component that you will pay.
- Details of any warrantees that exist.
- A restraint agreement, if necessary.
- Details of how your purchase will affect current employees.
- An indemnity clause to protect both the buyer and seller.

**Words of wisdom**

The Standard Bank website (www.standardbank.co.za) offers a range of hints and tips for anyone wanting to buy a business. An important part of the risk of buying a business is your ability to sue the previous owner if he or she has misrepresented the health of the business. Be extra careful if the seller is about to emigrate, or if all the assets are tied up in trusts and other companies.
Cleaning up your credit

When you fall into debt not only do you find yourself drowning in a morass of paperwork and legal wrangles, but you also enter a world in which demands, threats and spiralling interest rates make you question whether running your own business was ever worthwhile.

Don’t wait until it’s too late to sort out a potential debt problem. It is not something you need to be ashamed of, but it is something that should be managed sooner, rather than later when the pressures have reached insurmountable proportions.

A debt management plan (DMP) is your first line of defence. A professional, certified counsellor can assess your financial situation, create a spending plan and discuss the terms of your debts with creditors. By negotiating lower interest rates and waived late fees, your advisor can often arrange more affordable payments and shorter payoff periods. You can also consolidate your debts into one convenient monthly deposit that will disburse directly to your creditors.
Once you get your DMP in place and a bit of professional help, it is amazing how quickly your stress levels drop. Your creditors are more likely to be understanding and accept that they will be paid; your customers might pay up sooner and improve your cash flow; and the pressure on you is reduced to manageable proportions.

**How to avoid debt stress**

Debt stress can have a profound effect on every aspect of your life. You may find that you are experiencing certain changes in your personality. It’s possible that you are reacting ineffectually in situations, both at home and work, whereas previously the solutions seemed to be at your fingertips.

As with any condition that affects the day-to-day running of our lives, the signs of debt stress are obvious:

- Denial
- Shock
- Numbness
- Depression
- Disorientation
- Panic
- Anger
- Physical ailments (eg, insomnia)

If you have identified certain symptoms of stress, and have acknowledged that your stress is related to debt, then it is time to identify the source of that debt. Ask yourself why you now owe more money than you can ever hope to repay.

The answer may be related to retrenchment, bad luck, bad money management, or problems of a more personal nature such as chronic credit, living beyond your means, or a more serious issue such as drug addiction or gambling.

Labelling the cause of your debt overcomes the hurdle of denial and sets the course clear for financial rehabilitation. It is advisable to seek specialised professional help for what you have identified to be the specific cause of your money problems.

If you find you need a debt counsellor, use a reputable organisation and check what it is going to cost, before signing up. In many instances your bank can help you to:

- Pay less than your monthly minimums.
- Do a realistic debt settlement programme based on your budget.
- Negotiate with your creditors to reduce your unsecured debt.
- Stop many of the harassing and threatening calls from your creditors.
- Remove inaccurate information from your credit report.
- Avoid bankruptcy.

Can you deal with bad debt?

If you find you need a debt counsellor, use a reputable organisation and check what it is going to cost, before signing up. In many instances your bank can help you to:

- Pay less than your monthly minimums.
- Do a realistic debt settlement programme based on your budget.
- Negotiate with your creditors to reduce your unsecured debt.
- Stop many of the harassing and threatening calls from your creditors.
- Remove inaccurate information from your credit report.
- Avoid bankruptcy.

**Bankruptcy**

This is a legal procedure that can give people who cannot pay their bills a fresh start. Filing for bankruptcy may help you shed unsecured debts, stop foreclosures, repossessions and utility shutoffs. On the other hand, bankruptcy will be part of your credit record for up to 10 years. This means, for example, that it will be difficult for you to secure a bond to buy a home, among other things. File for bankruptcy only as a last resort after you have exhausted all other efforts to solve a financial crisis.
Put your bank to work

To run your business successfully you need to manage your banking efficiently and conveniently. Make sure you select an option that meets your specific needs.

Time is money – and nowhere is this more so than when it comes to running your own business. No small business owner in their right mind should still be spending hours every week visiting a branch to do basic banking transactions. If you’re reading this with a sheepish grin on your face, it is time to explore the option of Internet banking.

Internet banking is a safe and cost-effective way to control your finances from the convenience of your office. It gives you the flexibility of being able to check your finances 24 hours a day, seven days a week, which means you can keep an eye on your business and its money at the same time.

Standard Bank’s Domestic Banking offers a range of business services, including the ability to pay creditors and employees electronically, stop payment of cheques and transfer money between accounts. Other services include:

- Obtaining up-to-date statement information on your accounts.
- Managing your investments.
- Loading multiple debit and credit payments.
- Transferring funds to and from your accounts.
- Better account reconciliation.

If you’re still not convinced, think of it this way: banking online could save you a significant amount in basic charges, which helps make up for the cost of connecting to the Internet in the first place. For the less technically minded, there is also always help available either online or through bank call centres.

For more information on Standard Bank’s Domestic Banking service visit www.standardbank.co.za.

Connectivity basics

All you need to do Internet banking is a standard PC equipped with a modem, Internet browser software and an account with an Internet Service Provider. If you already have these, the next question is which type of access should you choose?

ANALOGUE DIAL-UP works over your existing telephone line. It is slow (56kbps – kilobytes per second), but also cheap if you only go online infrequently, for very short periods. Costs include the normal phone line rental, a monthly connectivity fee, and Telkom call costs for time spent online.

DIGITAL DIAL-UP (ISDN) is between two and four times faster than analogue. It is proportionately more expensive, but you can download more information in less time. Costs include the installation of an ISDN line by Telkom, monthly rental and connectivity fees, as well as Telkom call costs for time spent online.

ADSL gives you fast (512kbps) constant access to email and Internet for a fixed monthly cost. There are three options, based on the amount of information you upload/download each month, which is capped at either 3Gb (gigabytes), 6Gb or 9Gb. It is up to eight times faster than ISDN. Costs include the installation of an ADSL line by Telkom and the monthly rental and connectivity fees.
Balancing the costs of connectivity

Saving costs by banking online won’t help if your phone bill suddenly doubles as a result. This is unlikely to happen, but if your connectivity costs are getting out of hand, it might be time to re-evaluate your needs and change to an option that suits you better.

While analogue dial-up appears to be the cheapest option, the real costs of connectivity depend on how much time you spend on the Internet, and how effectively that time is spent.

MWEB Business conducted the following “shoot-out” between analogue, ISDN and ADSL, to see how each connectivity option performs.

<table>
<thead>
<tr>
<th>Speed = time</th>
<th>Time = money</th>
<th>More time = more money</th>
</tr>
</thead>
<tbody>
<tr>
<td>How long does it take to download a 10Mb email attachment or Internet file?</td>
<td>How much will it cost per month, on average, if you spend one hour online every day?</td>
<td>How much will it cost per month, on average, if you spend two hours online every day?</td>
</tr>
<tr>
<td>Analogue</td>
<td>Analogue</td>
<td>Analogue</td>
</tr>
<tr>
<td>40-45 minutes</td>
<td>40-45 minutes</td>
<td>40-45 minutes</td>
</tr>
<tr>
<td>ISDN (64kbps)</td>
<td>ISDN (64kbps)</td>
<td>ISDN (64kbps)</td>
</tr>
<tr>
<td>20-25 minutes</td>
<td>20-25 minutes</td>
<td>20-25 minutes</td>
</tr>
<tr>
<td>ISDN (128kbps)</td>
<td>ISDN (128kbps)</td>
<td>ISDN (128kbps)</td>
</tr>
<tr>
<td>10-15 minutes</td>
<td>10-15 minutes</td>
<td>10-15 minutes</td>
</tr>
<tr>
<td>ADSL</td>
<td>ADSL</td>
<td>ADSL</td>
</tr>
<tr>
<td>3-4 minutes</td>
<td>3-4 minutes</td>
<td>3-4 minutes</td>
</tr>
<tr>
<td>40-45 minutes</td>
<td>40-45 minutes</td>
<td>40-45 minutes</td>
</tr>
<tr>
<td>20-25 minutes</td>
<td>20-25 minutes</td>
<td>20-25 minutes</td>
</tr>
<tr>
<td>10-15 minutes</td>
<td>10-15 minutes</td>
<td>10-15 minutes</td>
</tr>
<tr>
<td>3-4 minutes</td>
<td>3-4 minutes</td>
<td>3-4 minutes</td>
</tr>
</tbody>
</table>

Bear in mind that you can do more in one or two hours on the faster ADSL line (eg, download the equivalent of 15 x 10Mb files), than you can on an analogue line (not even two x 10Mb files). For anyone who conducts aspects of their business online, ADSL – the cost of which is expected to continue to drop over the next six to 12 months – will probably prove more cost-effective in the long run.

Still confused? Contact MWEB Business on 0860 100 127.

*Figures are a rough guide only, and are based on standard costs.*
It’s as easy as 1, 2, 3 … isn’t it?

Does “double-entry accounting” fill you with dread, income statements make you head for the hills, and balancing the balance sheet boggle your brain? Here are some simple tips to help you tackle the accounting basics.

Whether you hire an accountant, beg a friend for help, or keep your business’s books yourself, it pays to have a good grasp of accounting basics – especially when you’re first starting out.

Cash or accrual?

When setting up your accounting system you should decide whether you are going to use the cash or accrual system. This decision also determines how you will report your business’s income and expenses.

Cash accounting is when records of income and expenses are kept as and when the cash is actually received or disbursed.

- Keep in mind that if you receive money on 30 December, which gives you a great fourth quarter and, even if you deposit the money in January, it is still part of your last quarter’s income.
- Don’t deduct every cash expense immediately, for example, larger purchases like equipment depreciate over time and the expense has to be amortised.
- Rent payments made in advance may only be counted for the year in which they apply.
- If you receive or give goods and services as payment it must be counted as income at fair market value.

Accrual accounting. This method is used when a transaction or sale takes place, not necessarily when you get paid.

- For example, if you sign a contract for R12 000 and get paid in instalments over three months you must record an income of...
R12 000 when the contract is signed, not R4 000 a month as you receive the money.

- You must record an expense when you receive the goods or services, not when you pay for them.

Double-entry accounting
This is the foundation of all modern accounting, and is a method of record-keeping that lets you track where your money comes from and where it goes. Using double-entry means that money is never gained nor lost — only transferred. Not only does this system aid the accurate calculation of profit and loss, it also makes it easier to detect errors and fraud.

**Double-entry accounting: rule of thumb**

Remember the simple rule — for every debit there’s a credit.

**Example:** If you purchase new equipment it is counted as a withdrawal from your bank account and an increase in expenses (because it increases the amount spent on equipment).

**Formula:** credit your cash account + debit your equipment expense account = double entry.

Quick tips: making cash or accrual work for you

- The accrual method gives you more accurate information on how your business is doing from month to month and year to year.
- Accrual is more effective in matching income to expenses.
- Income is accounted for when it is earned and not when you receive payment.
- Expenses are recognised when you are liable for payment.
- Accrual also helps you smooth out peaks in income and could lead to tax benefits.
- SMEs using a physical inventory are required to use the accrual method while service-based businesses tend to use the cash method.
- CCs with over a certain amount of average annual income are required by law to use the accrual method.
- Accrual may also be used by partnerships in which at least one CC is a partner.
- The cash method also has tax benefits if an SME is able to pre-pay or defer some of its expenses.
- You may combine both methods — using accrual for sales and purchases of inventory and the cash method for other accounts.
- Watch out if you combine the two methods — it could mean more work for you, as the two systems need to be maintained regularly.
Make your money count

Managing your budget – however small – is central to the success of your business, and it is the penny-pinching in some areas that pays for the big ticket items in others.

It might sound like basic common sense, but it always bears repeating: a well-managed budget is the foundation as well as the scaffolding that you need to build your business successfully. It helps you to keep an eye on the future while tracking past performance. It tells you what you can spend each year and how much you need to make, thus helping you to set goals and prioritise your finances.

A good budget can also be the glue that holds a partnership together, as it encompasses a plan of action and can be used to calm egos when partners don’t agree.

Remember, though, that budgets are not set in stone and should be flexible enough to take advantage of unexpected business opportunities, if and when they arise.

Recording salaries

If your business has grown to the extent that you are employing staff, you must start recording wages and salaries.

The main reason for this is that these require entries in several different accounts because of payroll and other taxes involved.

Don’t forget:

- Salaries must be debited to a wages expense account.
- Pay as You Earn (PAYE) taxes and UIF payments are then deducted from the employee’s salary.
- You must record your taxes as an employer by debiting a payroll tax expense account and crediting a liability account such as a UIF payable account.
- When hiring someone include in the employment contract the taxes that you must pay as the employer as well as the hourly rate and number of hours the employee has to work.
- Include the cost to your company of any employee benefits you offer.

For the low-down on employee tax visit www.sars.co.za or www.labour.gov.za.
How to get the most out of a budget

- Set specific goals, eg, increase turnover by 10% while keeping costs static.
- Use as much data as you can when planning, eg, past financial statements and invoices.
- Be sure that each expense category is a fixed expense that occurs each month on a set date for a set amount, like rent.
- Variable expenses, such as advertising, can be controlled by monitoring what you spend and reducing or increasing it accordingly.
- Ensure that you have money set aside for fixed or variable periodic expenses.
- Review your budget each month or quarter to check expenses against your financial plan. You may be under budget in one category and over budget in another. Find out why and amend your budget accordingly.
- A budgeting tool is a must and should form part of your software accounting package, either in the form of a ledger you keep manually or an Excel spreadsheet.

Keep that cash flowing

Cash flow, or the pattern of money coming into and going out of your business, determines if you stay in business. Manage it better by:
- Regularly reviewing when you expect to receive money and pay it out.
- Keeping an eye on the three main cash flow accounts — accounts receivable; accounts payable; and inventory.
- Examining supplier and customer credit terms. If you understand how these relate to each other you can pre-empt potential problems.
- Analysing the accounts payable and accounts receivable at the end of each month.
- Ensuring there are processes to keep cash flowing in as well as out. For example, don’t send out invoices at the end of the month, send them as soon as the job is complete.
- Knowing when your customers pay you, and when they fall behind. Consider technologies that will help you achieve this, such as MWEB Business’s GetPaid-Mobile, which enables you to process credit payments while you’re on the move.
- Offering discounts for early payment.
- Asking for a deposit. You can put the money to good use while you fulfil the order.

Visit http://office.microsoft.com for Microsoft’s Office Online financial statement templates. These include Excel spreadsheets designed to track cash flow and create cash flow projections. To download a 60-day trial of Microsoft Money (the computer accounting program) go to www.microsoft.com/money/deluxe.

Build a budget using the right tools

A builder would never use a chisel to cement together the bricks of a house. Likewise, small business owners should always use the right tools when managing their budget.

Microsoft Office Online has an expense budget tool that can help you track budgeted and actual amounts and the difference between the two. Ideally a budget should cover a single accounting period, eg, a month, as this gives you the ability to compare monthly figures side by side on a single spreadsheet.

Using simple formulas, Excel gives you the option of viewing your business data on one spreadsheet for one financial year. It also shows historical data to demonstrate the business’s growth from year to year.

For more information visit http://office.microsoft.com.
The taxman and you

Start your relationship with the taxman on a positive note by taking time to choose someone to help you with your books.

Whether you are an individual, a company, a CC, a director, a member of a CC, a partner, a sole proprietor, an employee or a spouse – if you earn income in this country you must pay tax.

Selecting a tax advisor can be a tricky business but be sure to interview him or her as you would any other professional. You might not be an expert in this field (yet!) but think of it as a learning experience. Meet with a few different tax professionals and see who you feel most comfortable with.

Six steps to find a good tax pro

1. First meeting: Most tax professionals charge according to an hourly rate, tax return complexity and hassle factor. Get your act together and take all the relevant documents and information to your first meeting as this will cut down on the time (and money) he or she spends searching for documentation.

2. Be early: Give your tax pro plenty of time to prepare so that he can give the taxman a more considered return.

3. Avoid rush jobs: Few will be open to taking you on as a new client if you only call a few days before the tax return deadline.

4. Extensions are fine: Rather send an accurate return late than an inaccurate one on time.

5. Don’t cheat: Don’t ask your tax advisor to cheat the system – they don’t want to do it.

6. Training: The person helping to prepare your taxes may not have any formal training – some tax preparers work seasonally and sometimes have little formal training beyond a company course. Find out if this is the case, and whether or not they have more highly-trained professionals checking their work.

How to register your company for tax

The easiest way to register your company for tax is to visit the South African Revenue Services (SARS) website, which gives you the guidelines for registration and the application forms. It also provides useful information on registering yourself, your company and your employees, as well as advice on UIF, VAT, transfer duty and various tax-related issues.

Visit www.sars.co.za or your local SARS office.
Questions to ask

What are his or her credentials? Tax pros are normally certified public accountants (CPAs) who focus on tax issues; enrolled agents (EAs) who specialise in tax issues; or unenrolled preparers who may or may not have formal training.

Which area or clientele does he or she specialise in? You need someone who is familiar with the issues that affect you and your business.

How much professional education does he or she receive each year? Passing the test as a CPA or an EA is not enough. Tax codes and the interpretation thereof can change and it is important for tax pros to keep abreast of developments. Ideally they should complete a certain amount of training each year.

With whom will you be dealing? You don’t need to know how the tax pro’s back office operates, but you do need to know if he or she is the one who will answer your queries.

What is his or her policy on returning phone calls? Some tax advisors are notoriously difficult to get hold of.

Will he or she be available outside of the tax season? Tax pros who work seasonally might only be available for the first four months of the year. If this doesn’t suit you, say so.

How much will he or she charge? Be upfront about payment, it is your money after all. Any tax pro should be able to give you a good estimate once he or she has interviewed you and checked your previous returns.

Need-to-know info

- Determine your period of assessment — for companies and CCs a normal year is a tax year; individuals, sole traders and partners in a partnership use 1 March to the last day in February as their tax year.
- Calculate tax using your net profit according to your income statement.
- You may deduct any expenses incurred in the production of income.
- Bad debts can be deducted as long as the original transaction that led to the bad debt was included in your taxable income for the previous year.
- If you operate your business from part of your home you can claim a portion of your expenses such as bond repayment, rates, electricity, telephone and domestic workers’ wages.

Other deductions

According to current tax law, legal deductions include:

- Medical expenses in excess of R1 000 or 5% of taxable income.
- Retirement annuity funds — 15% of non-pensionable income.
- Donations of more than R1 000 or 5% of taxable income to public benefit, which includes universities, colleges, selected educational funds, children’s homes and organisations for the aged and Aids sufferers.
VAT is a tax levied on the supply of goods and services. It is charged at a rate of 14% and is borne by final consumers of goods and services. Some simple rules to remember are:

- You must register for VAT if your business’s income exceeds R300 000 a year.
- VAT you charge is output VAT.
- VAT you pay to suppliers is input VAT.
- Output VAT – input VAT = VAT payable.
- Keep adequate VAT records for five years.
- Complete a VAT return and submit it to SARS with payments every two or six months (check www.sars.co.za for guidelines).
- Include a VAT number on your invoices and the words “Tax invoice”.
- Ensure that every invoice you receive from your suppliers has a VAT number.
- Keep a record of all the invoices you receive and issue.
- Develop a good system of tracking all your input and output VAT.

You can use an Excel spreadsheet to keep track of and calculate input and output VAT. Visit http://office.microsoft.com for downloads.

How to calculate VAT payable

Total sales
including VAT \times \frac{14}{114}
Eg: Sales R228 000 \times \frac{14}{114}
= R28 000
Typical mistakes to avoid

Not keeping your smaller receipts. Keep all your receipts, even those for small amounts. They might not be scrutinised by the tax pro but he will need to have a record of them. For example, a receipt for a small expense for entertaining a client will need to be detailed – where you went, who you went with, when you were there, etc. Write your client’s name on the credit card or cash slip, as well as the date and time.

Lumping equipment with supplies. Equipment is capital expenditure that has to be depreciated. Special rules allow most small businesses to write-off a certain amount for tangible personal property such as computers and office furnishings. These purchases must still be reported as capital expenditure and use the special method of expensing the costs. If you don’t report this properly and deduct your computers as supplies, SARS will probably rule that you are not entitled to the deduction that you claimed.

Forgetting to track reimbursable expenses. It is acceptable for small business owners to pay for some business expenses out of their own pocket or with a personal credit card, but don’t forget to track these costs and submit the expenses to your company for reimbursement.

You should also have a non-taxable reimbursement plan in place for employees.

Miscalculating car deductions. There are a number of ways to calculate deductions for vehicle use. Here are some brief pointers:

- Take a standard mileage deduction per business mile or a deduction for actual expenses and include depreciation of the car. You can’t claim mileage deduction and depreciation for actual expenses.
- Switch between the two methods but be careful – using standard mileage to calculate actual expenses means you can’t depreciate using the modified cost recovery system. You must use straight-line depreciation, which usually yields a smaller deduction.
- If the vehicle is owned by the business, 100% of the costs can be depreciated. Remember, personal use of a vehicle by an employee has to be included as part of their taxable income.

Giving more than you receive. There’s no problem with being generous and giving gifts to your clients and associates, but don’t go overboard. Decide how much you want to spend before you start buying gifts. SARS usually allows the full amount for gift deductions but will investigate higher amounts, e.g., an R80 000 car!

Did you know?

- As a vendor you must issue a tax invoice if goods or services total R3 000 or more.
- If you receive goods and services worth R3 000 or more VAT registration numbers must also be included on the invoice.
- There are about 16 000 to 17 000 registered VAT vendors in SA.
- A common error when issuing tax invoices is not including the purchaser’s name and address.
- A new scheme for informal small retail businesses, i.e., spaza shops, has been implemented to help simplify their VAT and bookkeeping processes.
- To qualify for this scheme you must have a turnover of less than R1 million a year.

For more information visit www.sars.co.za.

VAT-free milk...

Depending on the nature of your business, there may be certain items within it that are VAT free. These include:

- Brown bread, milk, petrol and diesel.
- The sale of your business.
- Certain educational services, rail, bus and taxi fares, home rental and life assurance.

Visit www.sars.co.za to download their tax guide for small businesses.
Calculating a travel allowance

Let’s say that you own a vehicle with a value of R47 250 and you receive a travel allowance of R24 000 a year. During the year of assessment you travelled 45 000km and did not keep accurate records of business and private trips. Your travel claim would be calculated as follows:

Total kilometres travelled: 45 000
Less: kilometres for business use: 18 000
Kilometres for private use: 27 000
Fixed cost element*: R25 197

Fixed cost per kilometre:
Fixed cost (25 197) = 56,0 cents
Km travelled (45 000)

Fuel cost element/kilometre 24,8 cents
Maintenance cost/kilometre 19,2 cents
Total cost/kilometre 100,0 cents

Total claim calculated:
Business km x total cost/kilometre (ie, 18 000 km x 100 cents) = R18 000

* Fixed cost element depends on the vehicle you drive. Visit www.sars.co.za for details on how to calculate this.

Checklist for correct travel expense claims

Keeping a record of all your company’s travel expenses can be tricky – but is important. Here are some simple tips for staying on the right track.

- **Have an opening and closing odometer reading for all business journeys.** Remember that the distance travelled between home and work is not counted as business.

- **Keep an accurate logbook of distances travelled.** If a logbook is not kept and you travel more than 32 000km a year, the first 18 000km are counted as business and the remainder as private. If you travel less than 32 000km, the first 14 000km are counted as private and the difference as business.

- **Have a travel allowance.** If you have a travel allowance and have kept an accurate logbook of the kilometres that you have travelled, your claim will not be limited to 32 000km.

- **Be aware of what the travel benefits are.** A travel allowance gives you a cash flow advantage because monthly PAYE tax is calculated on only 50% of this allowance. However, it can work against you if travelling is not part of your everyday work or if the distance travelled does not add up to the allowance you receive. If this is the case, the outstanding tax will be collected from you when you submit your tax return.

For example, if you travel a total distance that is less than 14 000km during the tax year and do not keep a logbook, you will not be able to claim against your travel allowance and will be taxed on the full amount. If you receive an allowance of 20 000km and your claim totals only 10 000km, then you will be taxed on the remaining 10 000km.
**Low-down on eFiling**

Electronic filing (eFiling) is wholly owned by SARS and is a channel between SARS and the taxpayer through which tax forms and tax payments can be submitted online.

Standard Bank’s Business Online website links into this online tax service through its Domestic Banking section to enable the bank’s customers to make online payments to SARS.

eFiling enables you to:
- View forms and related correspondence.
- Get a full payment and form submission history online.
- Access help facilities and online guidelines.
- Receive reminders via SMS and email.
- Download and use any tax form, and do payment tracking.
- Get electronic confirmation of transactions.

- Request extensions and tax directives.

Access is available from the Business Online home page. See www.standardbank.co.za and http://corporateandinvestment.standardbank.co.za/.

For more information please call 0860 123 006 or email businessonline@standardbank.co.za.

---

**How to use eFiling**

If you are a Standard Bank Business Online customer then:
- Log on to www.standardbank.co.za and click on “Domestic Banking”.
- Submit your tax payment using the eFiling system. Payment instructions will be submitted to Standard Bank Business Online.
- Your payment will be processed into SARS’ eFiling account. Business Online will notify SARS eFiling of the payment.
- The eFiling system will match the payment confirmation received by the taxpayer and submit a reconciliation report to SARS.
- The taxpayer is billed for using the system by Business Online.
- Business Online will generate a report to SARS eFiling.

If you are not a Standard Bank customer simply log on to www.sars.co.za to access eFiling.
Analysing your vital statistics

You’ve been tracking your financials like a demon. You’ve got spreadsheets, figures and columns and columns of numbers.

The question now is what to do with them …

Analysing your company statistics not only provides valuable measurables to track the course of your business, it can also be used to build competitive advantage. This data can help you set goals and determine how much you should charge for your services or goods. By examining the trends in your business you can plan ahead and seize opportunities as they arise.

The kind of data you choose to collect depends on the kind of business you are in. For instance a retail store doesn’t have the same requirements as a self-employed professional but both have one thing in common: they benefit from collecting information about their customers.

As with anything in life, what you get out of your information is only as good as what you put in. Accuracy counts – particularly when collecting personal information such as names and addresses. Start building up a database that not only includes basic customer information, but which also details what they buy from you and what other products or services they want.

In a new business you might not have historical sales and expense data at first, but you can always compare what you have budgeted for with what you think you can earn. Setting sales goals will help you to determine if your business is on track. Collecting and analysing sales information can help you to decide which products and services you should continue to offer, or stock more of, and which you shouldn’t. It will also help you to establish if you have the right sort of suppliers and all the employees that you need.

Other benefits of data collection include pricing, sales forecasting and managing expenses.

4 quick tips for improving cash flow

One of the challenges of running a small business is dealing with its feast-or-famine nature and it is not just about the flow of business, but also the flow of cash. Microsoft’s small business website www.microsoft.com/southafrica/smallbusiness offers the following tips:

1. Avoid slow-pay/no-pay customers: Weed them out before they start owing you money. If someone is about to become a significant customer, first check out their payment track record.

2. Use barter instead of cash: If you need something from someone and can offer goods or services of your own in return, do it. This reduces the strain on your immediate cash.

3. Trim your inventory: Money spent on inventory is not producing any interest or savings. Find clever ways to keep it down. For example, a restaurateur can cut back on the size of his wine cellar by focusing on a smaller number of better quality wines.

4. Consolidate your loans: If you have several loans, review the rates and terms of each. If you can, consolidate them into a lower-interest account. You could also consider extending the term in exchange for lower payments.
How to reach your goals

Expanding your business means that you need to know what volume of sales will cover your costs. You need to establish how much to charge for your time as well as the products and services you sell. If you take out a loan to help you expand, you will also want to calculate how much you can borrow in order to meet the repayments.

Microsoft Excel has a number of useful tools to help you meet your day-to-day business goals and score a few new ones. One of them is the goal seek function, which is found on the Excel spreadsheet under the tools menu.

The goal seek command allows you to calculate the value of a formula you’ve written equal to a goal you have set. Goal seek can help you determine how many units you have to sell in order to attain a certain income.

Goal seek also helps you to:

- **Analyse your break even point**
  Using the Excel command you can plot your business’s current level of expenses and income and work out how many hours the business needs to bill in order to cover its costs.

- **Do loan calculations**
  This is invaluable when determining the amount of money you can borrow given a set monthly repayment. Simply punch in the term of the loan, or how many monthly repayments you’ll need to pay it back, the interest rate you expect to pay, the loan amount and the amount of the monthly repayment.

- **Conduct a data tables analysis**
  This helps to determine how a small change in price or the number of hours that you bill can affect your bottom line. It helps you to thoroughly analyse your business’s financial picture.

For more information, visit [http://office.microsoft.com](http://office.microsoft.com).

---

**More useful Excel tools**

- **SUM and average** are the two most used (and useful) Excel functions, and are used to add up a column of numbers.
- The **PV** function calculates the present value of an investment and can help you decide whether to pay for equipment in cash or through instalments over time.
- The **FV** function calculates the future value of an investment, for example, how much an investment will earn over the years as you contribute to it.
Tracking the ups and downs

Are your “best” customers also your most profitable ones? And do they change from month to month? Which should you keep and which should you let go? Identifying these trends will give you new insight into how your business performs and – more importantly – why.

Ask yourself some questions: Why do sales go up and down? Which of your products do you sell the most of at certain times of the year? What percentage of the orders you receive are more than a set amount? The tools you need to answer these questions are probably already on your desk – most office software packages include a spreadsheet system, like Excel, which allows you to select and filter certain information about your business. Even if numbers aren’t your strong point, you can easily convert these statistics into graphs and charts to provide a visual representation of business trends.

Sorting

Spreadsheets allow you to sort information according to certain criteria, which helps you identify groups or patterns of behaviour among your customers. By loading the information onto a spreadsheet, you could, for example, sort your customers according to city, province or even neighbourhood, to see where the bulk of your business is coming from. You can also sort according to product or date, to see which customers bought which items and when.

Filtering

Filtering spreadsheet information allows you to focus on specific areas. For example, Excel’s AutoFilter function has a drop-down list that enables you to select a particular value as a filter. This allows you to view things like best-selling items, customers who buy the most, best sales months of the year and so on.

Charting

Plotting your information on a bar chart can help you to compare sales and expenses over a certain period. Similarly a pie chart can help you see the relative proportion of each category of expenses as a part of the whole. A line chart will help you to plot your sales over time. Programs like Excel can create these charts automatically, while giving you a variety of graph types to choose from.

Pivot table

Pivot tables and charts are designed to let you see information from different angles, either in detail or in the form of a summary, without having to set up more than one spreadsheet. This is particularly helpful when you need to make sense of lots of detailed data, for example, several years’ worth of sales or expenses.

Microsoft offers a number of software options for charting and analysing your business. For more information see the Microsoft Small Business Kit (ISBN: 0-7356-2054-7) or visit http://office.microsoft.com.
How to chart key business issues

If you’re starting a new business, or are thinking of upgrading your software, choose something that is relatively easy to use and which will allow you to conduct basic financial management and analysis by yourself. Look for a package that is specifically geared for small business users, such as Microsoft Office Small Business Edition 2003. Before you buy anything, check that it allows you to:

- **Prepare an overview of financial performance**: You will need this for any bank or potential investor. Microsoft’s small business template collection includes a PowerPoint template that allows you to present customised financial data.

- **Conduct a value product analysis**: When you’re trying to determine the best way to make your case to prospective customers and clients, let the numbers tell the story. Excel includes templates that help you to chart the benefits of your product or service against the investment required.

- **Build a competitive points list**: What are your strengths and weaknesses? What do you offer that your competitors don’t? The Word template found in Microsoft’s small business template collection helps you to identify areas for improvement. It also easily converts into a marketing piece that showcases your strengths.

- **Draw up a basic marketing plan**: Having a great product or service only leads to success when potential customers know about it. You need a marketing plan that shows step by step how you intend to reach your objectives. Excel has a template that outlines the basics and helps you to understand how to put together a detailed campaign.

- **Create a job performance review guide**: As a busy owner/manager, it can be hard to track performance on a regular basis. Microsoft Word has a performance review guide template that allows you to standardise employee reviews and track individual performance over an extended period.
Work smart to give you the edge

No matter how small your business, the right suppliers can make managing your finances a whole lot easier. Here’s how.

Are you the kind of business owner who is picky about where you purchase your paperclips, or who only prints out essential documents to save on print costs? Well, that’s good. In the big world of small business it is the little things that count. Being fussy about how you run your day-to-day business, and who you do it with, can help to reduce your running costs and ultimately improve your bottom line.

Start by choosing your suppliers intelligently. Your Internet Service Provider (ISP), for example, should be far more than just a connection to the World Wide Web. Internet-based technologies are increasingly being used as the building blocks for basic business systems, and a good service provider should be able to show you how.

Get the most out of your ISP
Ask your ISP what applications it can provide that will help you to manage your business online. Besides electronic billing and website creation and maintenance, this could include business functions like online accounting, spend

The benefits of managing business online

Online business management is the next technology step forward for small business owners, and has a number of advantages:

• Cost effective – you don’t have to purchase the software application/s.
• Up to date – by “leasing” the applications you have free access to the latest versions and virus protection.
• User friendly – you don’t need to be a financial expert to use the programs.
• Completely secure – much like Internet banking, online applications are secure, encrypted and password protected.
• Convenient – you pay for what you use, and use it for only as long as you need. It replaces paper-based systems and is available 24 hours a day.

The cheque’s in the (e)mail …

Many small business owners are their own worker, marketer, admin and financial manager, all rolled into one. And all too often, preparing invoices and chasing late payments cuts into valuable time that could be better spent generating new business. This is where a tool like eBilling can make a world of difference.

eBilling is an online facility that enables small businesses to send invoices and statements electronically, while giving customers the option of paying online. For example, MWEB Business’s eBilling facility allows you to track how many bills or statements have been sent, and to whom. It provides proof that a document was sent to the customer and can even track when the recipient read it.

Besides the obvious savings on paper, printer cartridges, envelopes and postage, being able to manage your invoicing system electronically cuts labour costs, saves time and eliminates confusion. It also means (at last!) that your cheques definitely AREN’T in the mail …

For more information see www.mwebbusiness.co.za/ebilling.htm.
management, goods procurement and payment. These applications are typically developed by an ISP like MWEB Business, and are stored on one of their servers. Instead of purchasing the application and loading it on to your own machine, you access and use it via the Internet on a subscription basis. You “lease” or rent it for as long as you wish to use it, while your ISP ensures it is bug-free, up-to-date and supported by a helpline. Simply put, it is like a “virtual” admin department that you can access and use in much the same way as you would online bank accounts.

The use of online applications is based on the principle that Internet connectivity is a tool with which to make your business more effective, more productive and therefore more profitable. It is also a way for you to ensure that your service provider works as your business partner, and does more than just send you a bill at the end of each month.

For more information visit www.mwebbusiness.co.za. Click on the eBilling or mobile commerce links for examples of online applications.

Give your cell phone credit

Using cell phone technology to make credit card payments is a relatively new concept to hit South Africa. It provides a quick, simple and completely secure payment solution for mobile businesses such as electricians, plumbers, installers and those selling goods from non-permanent locations, such as flea markets. It helps businesses to conduct secure transactions from anywhere and receive immediate payment, without hard cash changing hands.

All you need is your cell phone and your customer’s credit card. Once you sign up for the service, you simply follow the prompts to enter the transaction and card details into the phone, and the transaction is processed immediately. You will also receive an SMS and email confirmation of the transaction, which you can then forward to your customer.

Transactions can also be made using a landline telephone.

For more information, see www.mwebbusiness.co.za/mobile_commerce.htm.
Get safety in numbers

There are numerous software applications to help you balance your books. But when you find one that suits your small business environment, it often comes at a big business price.

Managing business accounts requires time, specialised accounting skills, and often a sophisticated software application – all of which few small business owners actually have. The launch of MWEB Business’s online accounting facility is one of South Africa’s first examples of how Internet-based technologies are helping to remove some of these obstacles.

Being able to manage your accounts in a safe, secure, online environment has several benefits:

- Because the application is stored on your ISP’s server, you do not have to purchase an expensive accounting package. You simply log on via the web whenever you want to use it.
- You don’t need to hire special skills to use or support the application – your ISP provides 24-hour trouble-shooting and support.
- Accounting tasks are faster and easier, from paying bills and invoicing customers, to tracking expenses and printing reports.
- All your business financial information is organised in one place, and you can access these records 24 hours a day, from anywhere. Your information is completely secure, but if you wish, you can give someone else access to it (eg, an external book-keeper).

Account management is the first in a number of online applications that will soon be available on the South African market. This includes MWEB Business’s Spend Management tool, being launched at the end of September. This web tool will allow you to integrate and manage purchase orders, leave requests and expense claims, right through to payslip generation. Bear in mind, however, that these applications are designed for users with ADSL connectivity.

For information see www.mwebbusiness.co.za.

Hook, line and sinker

It is natural to be concerned about security when working with business information online. If you are thinking of using online applications, or are looking for a new service provider, find out what security measures they have in place, ie, firewalls, encryption and password protection. Remember, though, that they can’t protect you if you give out your details to a stranger.

“Phishing” is one of the latest forms of fraud and is an attempt by criminals to access your confidential information.

You will either be requested by email to provide your banking information or be lured to a spoof website. Another phishing method sends users an email from their ISP containing links to a legitimate site. At the same time a pop-up window will appear requesting your credit card information.

If you suspect you are being “phished”, under no circumstances should you interact with the sender of the email, or provide anyone with your personal or bank account details.

If you are in any doubt about the source of an email or request for such information that claims to come from your bank, or of the validity of a website, contact your branch or service provider.
MWEB’s CommerceZone eProcurement portal is a prime example of how ISPs are growing their service offering to include additional Internet-based tools for specific segments of the small business market.

**Strategic sourcing:** If you sign on to CommerceZone, you have access to a range of goods and services that can be tailor-made (within the CommerceZone database) to meet your business requirements. This portal provides you with a full procurement management function that includes sourcing, contract management, service levels agreement management and BEE certification of suppliers.

**Specialised services:** CommerceZone also gives you the ability to handle complex procurement transactions (rather than a simple “select from catalogue” purchase) by ensuring that they follow the same order processes as simpler items. This includes a print management solution, which helps you to secure the best price, quality and service for complicated print requirements, as well as an in-house travel management service.

For more information visit www.commercezone.co.za.

---

**Why buying online makes business sense**

As a small business owner you can leverage your existing relationships with your larger suppliers and save cash by procuring goods and services online.

Larger companies often pay a monthly licence fee to a supplier or broker who then helps them to access goods and services at lower prices. Some companies, such as MWEB’s CommerceZone, are offering their customers the same opportunity.

Business-to-business (B2B) eProcurement solutions can give you immediate, direct and measurable savings and business benefits based on strategic sourcing of indirect goods and services. For example, if you purchase a great deal of stationery, you could make significant savings by purchasing it online through a facility like MWEB’s CommerceZone.

Besides having a positive impact on your long-term cash flow, you also have the added benefit of getting as much value as possible from an existing supplier (your service provider) rather than having to create new relationships with unknown ones.

**The BEE-nefit**

Working this way can also help you to achieve some of your broader business goals. For example, MWEB’s CommerceZone ensures that a greater percentage of your spend is directed to bona fide black empowered organisations. Once you purchase online, you receive a report outlining the BEE rating of the supplier, in this way increasing your company’s exposure to BEE businesses.
Glossary of terms

**Ability to pay:** A borrower’s ability to meet their current and future debt obligations.

**Accountant:** One who is skilled in the practice of accounting or who is in charge of public or private accounts, and is responsible for reporting financial results – for a company or for an individual – in compliance with government regulations.

**Account balance:** The amount of money in an account, equal to the net of credits and debits at that point in time for that account. Also called balance.

**Accounting:** The systematic recording, reporting, and analysis of financial transactions of a business.

**Accounts payable:** Money that a company owes to vendors for products and services purchased on credit. This item appears on the company’s balance sheet as a current liability, since the expectation is that the liability will be fulfilled in less than a year. When accounts payable are paid off, it represents a negative cash flow for the company.

**Accounts receivable:** Money that is owed to a company by a customer for products and services provided on credit. This is seen as a current asset on a balance sheet. A specific sale is generally only treated as an account receivable after the customer is sent an invoice.

**Accrual basis accounting:** The most commonly used accounting method, which reports income when earned and expenses when incurred, as opposed to cash basis accounting.

**Active asset:** An asset that is used in the daily operations of the business.

**Angel investor:** An individual who provides capital to one or more start-up companies. The individual is usually affluent or has a personal stake in the success of the venture. These investments typically have high levels of risk and potentially large returns on investment.

**Asset financing:** Financing for which assets are converted into working cash in exchange for a security interest in those assets. The most common kind of asset financing is to extend loans against accounts receivable. Other kinds of asset financing, such as lending against inventories, are also common practice.

**B2B:** Or Business-To-Business is a transaction that occurs between two companies, as opposed to a transaction involving a business and a consumer. The term may also describe a company that provides goods or services to another company.

**Back taxes:** Taxes that were not paid when they were due.

**Balance sheet:** A quantitative summary of a company’s financial condition at a specific point in time, including assets, liabilities and net worth. The first part of a balance sheet shows all the productive assets a company owns, and the second part shows all the financing methods (such as liabilities and shareholders’ equity). Also called statement of condition.

**Bank credit:** The borrowing capacity provided to an individual by the banking system, in the form of credit or a loan. The total bank credit the individual has is the sum of the borrowing capacity each lender bank provides to the individual.

**Bank reconciliation:** The process of adjusting an account balance reported by a bank to reflect transactions that have occurred since the reporting date.

**Bankruptcy:** A court proceeding in which an insolvent debtor’s assets are liquidated and the debtor is relieved of further liability.

**Books of final entry:** Accounting ledgers where information is transferred from the books of original entry.

**Bottom line:** Gross sales minus taxes, interest, depreciation and other expenses. Also called net earnings, net income or net profit.

**Break-even analysis:** A calculation of the approximate sales volume required to cover costs of a business, below which production would be unprofitable and above which it would be profitable. Break-even analysis focuses on the relationship between fixed cost, variable cost and profit.

**Budget deficit:** The amount by which a government, company, or individual’s spending exceeds its income over a particular period of time. Also called deficit or deficit spending and is the opposite of budget surplus.

**Business credit:** A bank loan to a company. Also called commercial lending or commercial credit.

**Capital:** Cash or goods used to generate income. Also the net worth of a business – the amount by which its assets exceed its liabilities.

**Cash budget:** A forecast of estimated cash receipts and disbursements for a specified period of time.

**Cash cycle:** The length of time between the purchase of raw materials and the collection of accounts receivable generated in the sale of the final product. Also called cash conversion cycle.

**Cash flow:** A measure of a company’s financial health. Cash receipts minus cash payments over a given period of time; or net profit plus amounts charged for depreciation, depletion, and amortisation.
**Character loan**: A loan based on the reputation and/or personal credit history of a borrower, rather than collateral.

**Cash flow statement**: A summary of a company’s cash flow over a given period of time.

**Chart of accounts**: A list of all account names and numbers used in a company’s general ledger.

**Collateral**: Assets pledged by a borrower to secure a loan or other credit, and subject to seizure in the event of default. Also called security.

**Cost accounting**: The process of identifying and evaluating a company’s production costs.

**Creditor**: A person or organisation which extends credit to others.

**Credit scoring**: A statistical technique used to determine whether to extend credit, and how much, to a borrower.

**Debit**: An accounting entry that results in either an increase in assets or a decrease in liabilities or net worth.

**Debit balance**: The amount that a business or individual owes a lender or seller.

**Debtor**: An individual or company that owes debt to another individual or company (the creditor), as a result of borrowing or issuing bonds.

**Deposit**: Money given in advance to show intention to complete the purchase of an item. Also money transferred into a customer’s account at a financial institution.

**Equity capital**: Capital raised from business owners.

**Fee-based financial planning**: Financial planning services that are paid for on a flat fee or hourly basis, rather than on a commission basis, to eliminate potential conflicts of interest.

**Finance**: The management of assets, especially money. Can also mean to raise money through the issuing and sale of debt and/or equity.

**Financial asset**: A non-physical asset, such as a security, certificate, or bank balance.

**Financial statement**: A written report that describes the financial health of a company and includes an income statement, a balance sheet and a cash flow statement. Financial statements are usually compiled on a quarterly and annual basis.

**Fixed asset**: A long-term, tangible asset held for business use and not expected to be converted to cash in the current or upcoming fiscal year, for example, manufacturing equipment, property and furniture.

**Fixed-rate loan**: A loan in which the interest rate does not change during the entire term of the loan.

**General ledger**: A book of final entry that summarises a company’s financial transactions, by using debit and credit accounts.

**Gross**: The total amount before anything is deducted or 12 dozen (144).

**Gross earnings**: An individual’s taxable income before any appropriate adjustments are made.

**Gross profit**: Pre-tax net sales minus cost of sales. Also called gross income.

**Guaranteed bond**: Corporate bond where principal and/or interest payments are guaranteed by a corporation other than the issuer.

**Hidden asset**: An asset not immediately apparent from a balance sheet.

**Impaired credit**: The result of a reduction in the credit rating of a borrower.

**Income statement**: An accounting of sales, expenses and net profit for a given period.

**Income tax**: Annual tax levied by the Government, most states, and some local governments, on an individual’s or corporation’s net profit.

**Inflation rate**: The percentage increase in the price of goods and services, usually annually.

**Insolvent**: Unable to meet debt obligations.

**Intangible asset**: Something of value that cannot be physically touched, such as a brand, franchise, trademark, or patent.

**In the black**: Profitable. Opposite of in the red.

**Inventory**: A company’s merchandise, raw materials, and finished and unfinished products, which have not yet been sold. These are considered liquid assets, since they can be converted into cash quite easily. There are various means of valuing these assets but to be conservative the lowest value is usually used in financial statements.

**Investment management**: The process of managing money, including investments, budgeting, banking and taxes. Also called money management.

**Liability**: A financial obligation, debt, claim, or potential loss.

**Net worth**: Total assets minus total liabilities of an individual or company. For a company, also called owner’s equity, shareholders’ equity, or net assets.

**Value Added Tax**: VAT – consumption tax which is levied at each stage of production based on the value added to the product at that stage.
Where to learn more

Your small business partners

www.realbusiness.co.za
Also see the Real Business printed supplement in Business Day on the third Monday of every month.

www.mwebbusiness.co.za
MWEB Business sales: 0860 100 127 (email business@mweb.com)

www.microsoft.com/southafrica/smallbusiness
0860 225 567 (email mssatalk@microsoft.com)

www.standardbank.co.za
0860 012 345 (email information@standardbank.co.za)

Small business resources

Please note: The Real Business partners do not endorse the following resources in any way. These are intended as information reference points only. For other general training and online resources for small business in South Africa, please see Small Capital issues 1 and 2.

www.thedti.gov.za
The official website of the Department of Trade and Industry.

www.khula.org.za
Information on Khula credit guarantees for small business.

www.frain.org.za
Franchise Advice and Information Network.

www.brain.org.za
The South African Business Referral and Information Network, which offers value-added information to SMMEs.

www.businesspartners.co.za
Business Partners provincial offices.

www.smallbusinessonline.co.za/seminars.htm
Financial management training for small businesses, offering access to finance for franchising.
www.fsp.co.za
Tips, information and ideas on business and finances plus advice from experts in business, personal finance and tax.

www.small-business-hub.co.za
Small business loans, business plans, business opportunities and finance for South African entrepreneurs.

www.saeverything.co.za/businessrequisites.htm
South African business resource portal.

www.mbendi.co.za/idc/finance/apply.htm
Details of the finance required from the Industrial Development Corporation (IDC) for medium, small and start-up businesses.

www.saguides.co.za/BO.htm
The SA guide to business opportunities webpage, containing information on venture capital and other sources of finance, as well as BEE and VAT.

www.microsoft.com/sbs
For information on the Windows Small Business Server 2003 – the affordable networking solution for small businesses.

www.microsoft.com/southafrica/experts
Find the perfect technology partner – for information on organisations with technical expertise, strategic thinking and hands-on skills.
The Small Capital practical guide is proudly brought to you by:

Produced by Words’worth (011) 381-7700

Marketing yourself
Marketing your brand

Next issue