A practical guide for small business owners

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Making small business work in South Africa

Do you own a small business, or are you an entrepreneur with an idea that you can’t wait to get off the ground?

Well, you are in good company. Small, Medium and Micro Enterprises (SMMEs) contribute around 40% of South Africa’s gross domestic profit and employ more than half of the private sector workforce. It is estimated that as much as 80% of new jobs in world economies are being created by SMMEs, making small business a key player in the future growth of our country.

This Small Capital handbook is the first in a series of practical guides that offer clear explanations, logical suggestions and expert advice for small business owners in South Africa.

This issue focuses on starting and managing your business. It contains the tips, tools and “must-have” references you need to save time, share knowledge and secure maximum returns on your small business investment.
Starting an entirely new business is uncharted territory for most people. It offers great rewards, but equally high risks – around 80% of all new small businesses fail within the first five years. Wanting to be your own boss isn’t enough to make you successful and, before you set up shop, you need to think hard about whether you have the right temperament, leadership skills, support system and dedication to be an entrepreneur.

Evaluate your strengths and weaknesses by honestly answering the following questions:

**Are you a self-starter?**
You need to be able to develop and drive projects, manage your time and follow through on details.

**Are you willing to work long hours?** When you own a business you’re committed to it 24 hours a day, seven days a week – particularly during the first few years.

**Are you good at making decisions?** As a sole owner you will have to make decisions quickly, under pressure and on your own.

**Do you plan well?** Research indicates that many business failures could have been avoided through better planning. Good organisation of financials, inventory, schedules and production is the oil that keeps any business engine running smoothly.

**Do you have the strength to stay motivated?** Running a business can wear you...
down, especially when all the responsibility is on your shoulders. It takes strong motivation and passion to survive a slump in business, or periods of burnout.

**Are you willing to invest?** True entrepreneurs put their money where their mouths are, and this might mean using personal savings or property.

**Have you considered the possible impact on your family?** Starting a business can be hard on family life. The strain of a spouse who isn’t behind you 100% may be hard to balance against your new business demands. There also may be financial difficulties until the business becomes profitable, which could necessitate lowering your standard of living.

**Do you have a network of friends or associates who could provide outside financing?** Insufficient capital is a key cause of small business failure. If you are not able to obtain enough funds from a bank, you may need to rely on funds from friends and family. Most start-up business are funded this way.

If you can answer YES to most of the above questions, then you may have the potential to join the ranks of successful SMME owners. If you can’t, you need to consider whether starting a small business is the best solution for you.

It is estimated that more than 1,5 million self-employed people constitute the SMME sector, contributing about 40% of the total remuneration in South Africa.

According to the Companies and Intellectual Property Registration Office, there are 880 000 registered CCs and 340 000 registered companies.

Micro/informal businesses appear to make up most of the SMME sector. According to the South African Revenue Services there are 510 000 registered VAT vendors.

Small businesses employ approximately 55% of the country’s labour force.*

*From www.smallbusinessonline.co.za
Are you failing to plan, or planning to fail?

A business plan is crucial to the success of any business. This plan is simply a step-by-step exercise in forward thinking.

A sound business plan should contain crucial budgets and cash flow forecasts that will show how much profit you can expect your business to make, how much finance you will need and the risk involved. This helps to demonstrate your business idea, how you want to implement it and the long-term viability thereof.

The importance of a comprehensive, well thought-out business plan cannot be overemphasised. Much hinges on it: outside funding, credit from suppliers, management of your operation and finances, promotion and marketing of your business, and achievement of your goals and objectives.

10 reasons why small businesses fail

- Inadequate business planning
- Insufficient capital
- Lack of management experience
- Poor location
- Poor inventory and cash flow management
- Over-investment in fixed assets
- Poor credit arrangements
- Personal use of business funds
- Competition or lack of market knowledge
- Low sales/not pricing properly
Surprisingly, many entrepreneurs drag their feet when it comes to preparing a written document. They argue that they don’t have enough time, or that the market changes too fast for a business plan to be useful. But just as a builder won’t begin construction without a blueprint, eager business owners shouldn’t rush into new ventures without a business plan. A business plan is your roadmap to success.

Before you begin writing your business plan, consider four core questions:

1. What service or product does your business provide and what need does it fill?
2. Who are the potential customers for your product or service and why would they purchase it from you?
3. How will you reach these potential customers?
4. Where will you get the financial resources to start your business?

Success in business is never automatic. It isn’t strictly based on luck — although a little never hurts. It depends primarily on the owner’s foresight and organisation. Even then, of course, there are no guarantees. Starting a small business is always risky, and the chance of success is slim. Planning is crucial.

Your business plan should do the following:

1. Identify the target market by defining your audience; the size and scope of the market; details about competitors; your pricing and marketing strategies.
2. Explain the benefits of your product or service, how it is unique and its appeal to customers. Include information about your company’s location and how that location will benefit your business.
3. Show that you have effective management – people who not only have the necessary business skills, but who also work effectively together.
4. Focus on the future by attempting to develop forecasts of relevant business trends over the next three to five years. At the same time, do not be too optimistic in estimating sales potential. Allow for the best, worst and most likely scenarios.
5. Highlight current and potential problems and show how they will be overcome. This helps you avoid problems and boosts your credibility with investors and lenders.
6. Develop a financial plan that includes a capital equipment list, a balance sheet, income statements or projections for three years, cash flow statements, break-even analyses and loan applications.

For a business toolkit to see you through the planning stages, see www.bcentral.co.uk/betterbusiness/default.mspx

Don’t reinvent the wheel …

The Standard Bank website offers a detailed business plan template for prospective small business owners:

- See www.standardbank.co.za in the business banking section, under the heading “starting a business”.
  - This guide includes automated financial calculations and spreadsheets.
  - It is also in the bank’s preferred format.
Which structure suits your business best?

There are several ways to structure the legal ownership of your business, depending on the nature of the business, the number of people involved, management capabilities, personal risk and your future plans.

Sole proprietor/sole trader: This is best suited to a business that is not fixed asset-driven (ie, is service-based) and in which the owner is the sole employee. Income accrues directly to the owner and there are no complicated statutory returns other than meeting basic legal and

How to Register your CC

All CCs in South Africa are governed by the Close Corporations Act, which is administered by the Companies and Intellectual Property Registration Office (CIPRO).

Purchase CC registration forms from a local stationer, or download them from the CIPRO website (www.cipro.co.za).

Choose a name for your corporation, plus a second and third option in case your first choice is already registered. If you have access to the Internet, you can check this by using the name search function on www.cipro.co.za/home.

Reserve this name by filling in form CK7. Then complete the founding statement form (CK1) in duplicate.

Obtain written consent from a certified financial accountant to act as your accountant.

Certain payments must be submitted with the forms (usually under R200) and can be done via direct deposit, electronic transfer, credit or debit card, or in cash. See the CIPRO website or call the CIPRO call centre on 0861 843 384 for details.

Send the forms, letter and proof of payment to the Close Corporations Registrations Office, Box 429, Pretoria 0001 or Block F, The DTI Campus, 77 Meintjes Street, Sunnyside, Pretoria.

If the corporation name is approved and all the formal requirements are met, the Registrar will allocate your CC a number. This must appear on all your business documents in addition to the letters CC after its name.
tax requirements. The disadvantage is that the business is not a separate legal entity, so the owner is liable for, and can be sued for, the business’s debts. If the owner of the business dies, the business ceases to exist.

**Partnership:** Based on the same principles as a sole proprietorship, this structure allows you to have up to 20 partners who share responsibility, skills and liability. A partnership requires a contract to formalise each person’s contribution to the business, their responsibilities, profit share, means of resolving disputes, disability/death insurance, and what procedure will be followed if the partnership changes or is dissolved. Finding funds for a sole proprietorship or partnership depends on the security that the individual owner/partners are able to provide.

**Close corporation (CC):** This is a popular and widely used structure that gives a business a separate legal identity without the formalities of the Companies Act that governs (Pty) Ltd companies. This structure is ideal for a business that purchases stock on credit. A CC can have between one and 10 members, each of whom owns an agreed percentage of the business and who is liable for managing it properly. A CC can’t be owned by a company or be a subsidiary of another CC or company. A CC (rather than its members) can sue and be sued.

**Company (Pty) Ltd:** This is also a separate legal entity in which directors are protected from individual liability. A company can make shares available to staff as a private company (Pty) or to the public as a limited company (Ltd), and these are easily transferred from one owner to another. (Pty) Ltd companies are subject to an annual audit. This is the best legal structure for people who ultimately want to sell their business to a large competitor, or list on the stock exchange.

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**WHAT IS ... a trading trust?**
A trading trust is created by a deed, under which property is held and managed for the benefit and profit of the beneficiaries named in that deed. It is not a separate legal entity from its trustees, but is regarded as such for tax and transfer duty purposes. Trustees must be authorised by the Master of the High Court. Trading trusts are appropriate for businesses such as property development enterprises.

**WHAT IS ... a cooperative?**
This is a separate legal entity that provides limited liability and conducts business for the benefit of its members. Its members are also, to a large extent, its customers. For example, cooperative societies or companies are used extensively in agriculture for the supply and distribution of farming supplies and products within farming communities.
How much are you in for?

During start-up phase, the small business owner needs funds for once-off start-up costs as well as at least six months of working capital. Plan for things to cost more than you think, and include this budget in your business plan.

Calculating start-up costs

If you are not sure what your expenses will be, make finding out part of your due diligence. Research similar businesses in your industry and aim to uncover any general expenses that you might not have thought of. If possible, consult a lawyer or accountant who has experience with small businesses.

Typically, start-up costs include the following:

1. Expenses before the starting date, such as market research, registration fees, legal fees, office stationery, design and printing of corporate identity (business cards and letterheads), registration of a domain name and creation of a website, installations and utility connections (if moving into a new property).

2. Start-up inventory (if yours is a product-based business).

3. Cash reserve to support the company during the early months before sales reach break-even levels.

4. Current assets, such as fixtures and signage, office furniture and vehicle/s (either purchase price or down payments).

5. Long-term or fixed assets, such as property and equipment.

Beware of hidden costs

Hidden costs are those you don’t see, don’t always expect, and which seldom feature in a business plan. In fact, many people don’t realise that, while they are pounding away on their treadmills, the main things holding back the growth of their small business are costs that
haven’t been factored into the monthly budget.

These costs vary, depending on the size and nature of your business, and can include:

- Monthly interest on your business overdraft (R100 000 at 11% costs you R934 every month). The interest rate is linked to the official prime rate and is dependent on factors such as risk profile, usage and collateral.
- Bank interest charged by suppliers when you pay them late.
- Interest lost when customers pay you late, or when you pay a third-party supplier before you have been paid by your own client for a product or service.
- Depreciation of equipment and property.
- Maintenance (eg, IT support, vehicle services).
- Money lost by spending time on tasks that could be outsourced (eg, spending R60 on a driver or delivery service, compared to an hour or two of your time that could be better spent closing a sale).
- Commissions and administration fees (eg, of benefit plans).
- Employee turnover is one of the most substantial hidden costs in business today and is commonly referred

SUCCESS TIP:
Develop referral contacts
“\( I \) learnt how to leverage myself by developing mutually beneficial contacts who I could help and who could assist me with growing my business. Now I have people who are looking out for opportunities for me, and they do it because they know I’m also looking out for them.\”

LESSONS LEARNT
“\( H \)ave some back-up capital to take a little pressure off yourself when you start. \( T \)his allows you to have natural interactions with business prospects rather than desperate ones.\”
to as "the silent profit killer". Remember that an employee costs more than his/her salary. Factor in the cost of additional equipment, office furniture, perks and training.

You can’t always avoid these costs but being aware of them helps you minimise their impact and plan for them in your budget.

Managing cash flow efficiently
Poor cash flow is one of the major causes of failure in small businesses. You can turn a profit but still go bankrupt if your business has a cash flow problem. Developing a cash flow forecast will indicate the estimated money flowing into and out of the business over a period of time, allowing you to set budgets and targets, and monitor performance.

In a new business you don’t have existing cash flow information on which to base a forecast. In the book *Up and Running: A Guide to Running Your Own Business*, local authors Andrew Patricio and Paul Mitchell suggest using the following questions as a guideline:

**Keep overheads down:** Every Rand counts. If you have a 20% mark-up, then every Rand of fixed costs spent unnecessarily means five additional sales are needed to get back to the same point. It’s easier to save costs than to grow profit, so don’t buy new if you can do with second-hand, and don’t buy at all if you don’t really need it.

**Avoid credit terms:** Bad debts are the quickest way to sink a small business. Make sure your payment terms are understood and agreed to in writing before a project begins or a sale is made.

**Debt collection:** Follow up as soon as money is due. A new debt is far easier to resolve than an old one.

**Improve supplier payment terms:** Negotiate preferential payment terms, extensions of credit lines or discounts for early settlements. However, don’t compromise your relationships with your suppliers – you need them on your side.

**Keep stock to a minimum:** Stock costs money to buy, transport and store. It can also be stolen, damaged or become obsolete. Managing stock sensibly is as important as managing cash flow.
Calculating cost vs profit

Regardless of the type of business you are in, the price you charge has a direct effect on the profit you make. Simply put, the lower your expenses and the higher your prices, the greater your profit margin. Under-pricing will cause your business to fail, while over-pricing will lose you customers.

Set prices by establishing the total cost of the product or service provided (including all the fixed and variable costs mentioned on the previous pages). Divide this by the quantity of products produced, or hours spent to establish your cost price. Find out what your competitors are charging, and then decide on a selling price.

Bear in mind the following factors:
- Seasonal fluctuations.
- Price increases.
- Emergency situations.
- The need to be conservative and realistic.
- Allow for late payments by debtors.

Regardless of the size of your business, it’s important to do regular cash flow and profit projections if you want to maximise returns and minimise cash flow problems.

Determine your mark-up using this formula:

\[
\text{Mark-up} \% = \left( \frac{\text{selling price} - \text{cost price}}{\text{cost price}} \right) \times 100
\]

Mark-up is NOT the same as gross profit margin, which is calculated as follows:

\[
\text{Gross profit} \% = \left( \frac{\text{selling price} - \text{cost price}}{\text{selling price}} \right) \times 100
\]

Example: If a can of cold drink costs R1.50 and you sell it for R3.00, then based on the above formulas, your mark-up is 100%, and your gross profit margin is 50%.

Buying a business

The advantage of buying an existing business is obvious – most of the start-up pains should be over and it should have an established customer base. But you should still write a business plan – it’s the best way to get to know the business and to make sure it survives the change of owners.

HOW MUCH? There are many ways of calculating the price of a business. For a standard formula to calculate the worth of an enterprise, see www.standardbank.co.za (in the business section, under “starting a business”).

• What portion of your sales will be for cash, if any?
• What purchases will you have to make to achieve those sales?
• How much opening stock will you require?
• How much capital do you have available to invest in the business?
• What loans are you going to make from the bank or other sources?
• What monthly expenses will you incur?
• What capital expenditure are you going to make?
• What monthly salary are you going to draw?
What assistance is available?
The hunt for finance is an ongoing challenge for most small businesses in South Africa. Depending on how much you need and what you need it for, there are various funding options to get – and keep you – up and running.

How does your business look to a bank? The first questions banks ask when you apply for a loan, are: “How sound is the business plan?” “How strong is the projected cash flow?” “Do you clearly understand the business, and do you have the skills to run and manage it?” Banks also require collateral in the form of cash deposits or assets. This gives the bank security in case you are unable to repay the loan. It also shows your commitment and willingness to take a risk.

A business-term loan is a relatively simple way to secure funds (from about R50 000) for any period up to eight years, repayable in equal monthly instalments. This can be used to purchase assets, fund refurbishments or buy a small business. The loan period is not fixed and is determined by your monthly repayments.

An overdraft is quick and easy to arrange, and aids cash flow management because the cash is instantly available when you need it. However, the interest rate on an overdraft is high and using it for an extended period adds to your overheads.

A business revolving credit plan is a loan where repayments are made in equal monthly instalments. Once you have paid back a portion of the loan (usually around 25%), you can withdraw the funds up to the original limit. The fixed monthly payments make for easy cash flow planning.

Sourcing money from your debtors
Debtor finance involves selling your debts (amounts owing to your business) to a third party at a discount, in return for cash. The purchaser then takes over the collection of the debts. Most commercial banks offer this service and pay you an agreed amount (usually 75%) at the time of purchase. Generally they charge a service fee or a percentage of the credit sales. Each bank or factoring company has certain criteria that your business must meet in order to qualify for debtor finance. If you work with large companies that often pay late, this can be a way of improving your cash flow situation.
A medium-term loan has flexible repayment options structured in line with customer cashflow and is paid off over two to seven years (sometimes longer, depending on the bank and what best suits your business and cash flow). This is suitable for big capital expenses and is usually linked to the prime interest rate. The size of the loan depends on how much collateral you have.

You can use a business mortgage (up to about R5 million) to buy a “residential” property for use as business premises. Normally the loan is for up to 80% of the property’s assessed value and is repaid over 15 to 20 years. The potential to convert the property back to residential use must be maintained.

A commercial property loan offers long-term finance for the purchase or building of commercial or industrial premises such as shops, offices, warehouses and sectional title units or complexes zoned for business purposes. It also covers existing residential properties that are primarily used for business purposes and which have business rights.

How to get finance if you don’t have collateral
Most small business owners find start-up capital from their personal assets, such as savings and retrenchment packages, or by using shares, bonds on a home and insurance policies as security. You should be prepared to invest as

To buy, or not to buy?
Few small businesses can afford to pay cash for assets such as vehicle and office equipment. There are various ways of financing these, depending on your cash flow and tax situation:

Instalment sale: This means you can use the asset from the start of the instalment contract, but it only becomes yours when you make the last payment.

Leasing: You use the asset and pay “rent” to the leasing agent or owner. At the end of your repayment period you may buy the asset, refinance it or continue renting it.

Full maintenance lease: This is the same as leasing but includes maintenance, eg, of cars or computer equipment.

Access finance: This allows you to pay extra money into a particular loan account. You benefit from the lower interest charged, but are still able to withdraw that extra money at any point to purchase assets if your business needs them.

See page 22 for more pros and cons of leasing
much as you can in your business before you expect others to invest in you. However, if you don’t have enough security to qualify for a normal bank loan, there are alternatives.

Guaranteed loans: Khula Enterprise Finance Limited is a government agency that enables local banks and finance institutions to provide collateral-free loans to SMMEs. Khula will guarantee up to 80% of a bank loan on behalf of a small business that does not have assets to put up as collateral. To qualify for a Khula-supported loan, you have to meet the normal banking requirements and provide a 10% deposit. For information contact your nearest bank or phone the Khula toll-free line on 0800 118 815, or see www.khula.org.za.

Donors and funding agencies: If your small business involves innovative research and development or has the potential to make a significant impact in a particular industry, there are agencies that will provide development funds without requiring collateral or repayment. These agencies provide funding via a government department or through a partnership with a major South African company that has an interest in the research being funded. For examples go to www.brain.org.za/financing.html.

Incentive schemes: Some organisations offer financial incentives such as reduced interest rates and payment terms, bridging finance, import finance and development or rehabilitation funds. These are usually available if a business establishes new facilities in economically inactive areas, creates significant job opportunities, benefits natural resources or uplifts a community or environment. Names, descriptions and contact numbers can be found at www.brain.org.za/financing/incentives.html.

Venture capital and equity funding: This is the process of securing funds (usually from about R500 000 up to R20 million) through another company to start or expand your business. The funder expects higher than average returns and normally obtains equity in your business. The SA Venture Capital and Private Equity Association (SAVCA) publishes a directory of members and their investment preferences. They can be contacted on (011) 885-2666 or www.savca.co.za.

Who else to ask

There are organisations in South Africa that offer finance to SMMEs, from as little as R500 for small enterprises (e.g., hawkers) up to as much as R15 million and more for big development projects and existing businesses. The Pretoria-based Business Referral and Information Network (BRAIN) runs a national database of agencies that offer this type of funding. This list can be viewed at www.brain.org.za/sections/financing.html. It can also be obtained from the BRAIN National SMME Information Centre: PO Box 395, Pretoria, 0001. Tel: 0860 103 703. Web: www.brain.org.za.
How to start without money

Don’t quit your day job: Use your current income to experiment with your idea. Find out what prospective customers think of your idea and whether there is a market for your product.

Work out (and use!) a business plan: Start working on a business plan as soon as your ideas begin to come together. Develop this plan as your ideas change.

Get the paperwork out of the way: Attend to all the regulatory requirements early, so that you don’t waste valuable selling time once your business is launched. See page 32 for details.

Get your systems in place early: Don’t launch before you have systems in place for things like record-keeping, invoicing, book-keeping and customer care. These will keep your business running while you focus on growing your client base.

Build up sales before you launch: Ideally, get a few regular customers before you go into the business full-time, to build up a customer base.

Get some suppliers on your side: See whether your suppliers will give you a few months in which to pay while you are starting up. This way, you don’t have to get loans to buy supplies.

Start gradually: There may be certain products or services that sell better than others, with less infrastructure and capital outlay. Start with these and get the cash flowing.

If borrowing money from family and friends …

DON’T be too relaxed about financial agreements.

DON’T ignore the possibility of failure.

DON’T ask for more than they can afford to do without.

DO keep them regularly updated.

DO be open to their advice.

DO consider being mentored.

Five venture capital basics

Before talking to investors to secure additional finance, make your proposal as appealing as possible by following these steps:

1. Build a management team: Experience and the ability to grow the company is the number one priority for most investors.

2. Make your business plan stand out: Show the potential of your idea. Be concise and tell the truth.

3. Approach the right investor: Don’t waste your time on people who have never put money into a company like yours.

4. Know your market: Compile statistics, interview potential customers and read trade journals.

5. Network, network, network: Develop relationships with attorneys, accountants and people who have investor connections.

From Trend Magazines Inc, (US) 2004
Untangling technology

There are countless hardware products that promise to help entrepreneurs do things better, faster and cheaper. But before you rush out with your wallet in hand, make sure you understand the basics …

What are you going to use the equipment for, and what do you need it to be able to do? Many small office systems are sold as all-in-one packages, which offer great value but might not include everything you need. Consider the following and make a list of “must-have” requirements:

The **Central Processing Unit (CPU)** controls the speed at which a computer processes information. You’ll need a PC with at least a 450 megahertz (MHz) processor for tasks like bookkeeping and using the Internet. For heavier demands, like graphic design or architectural

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**Know your needs**

How will you communicate with the people involved in your business? How often will you need to use the phone, fax machine, email or Internet?

What systems do you need to operate your business, eg, basic administration, or specialised systems such as graphic design or stock management programs?

What hardware do you need to run these systems? Different software requires different PC operating speeds, memory and storage capacities.

How will the information in your business be used and shared? If staff need to regularly access information stored on different computers, you might need to network your machines.

Do you need to be mobile? How critical is it for you to be able to access information while you are away from your office?

What kind of free help and technical support will you need? Will the vendor you buy from be able to provide it?
Random Access Memory (RAM) is where your computer stores the information it is currently working on. The more memory you have, the faster you can work and the more programs you can have open at the same time. Choose at least 64 megabytes (MB) for basic administrative tasks, and double or more if you’re using graphics-based software.

The hard drive is where your PC stores your work and programs. Most PCs come with at least a 40 gigabyte (GB) hard drive, which is adequate for a basic office machine. The rule of thumb is to buy the biggest you can afford – the smaller the hard drive, the sooner you will have to upgrade your machine.

Large monitors, or screens, make for easier viewing but are also more expensive. Sizes range from 14 inches to 21 inches (the diagonal measurement) and most people are comfortable with a 15- or 17-inch screen.

Choose a keyboard and mouse based on comfort and ease of use. Ergonomic keyboards are shaped to the natural alignment of your fingers and wrists but can be awkward if you are not a touch-typist. Some machines have a built-in mouse (in the form of a trackpad or trackball). Choose what you feel most comfortable with.

PCs usually come standard with a 3.5-inch disk drive, as well as a CD-Rom or DVD drive. Check that whatever you buy has extra disc drive slots in case you want to add more drives in the future.

Sound and graphic cards allow you to process and play back sound and images on your PC. Cards with more built-in memory offer better performance. A designer, architect or computer animator, for example, would need a high-end graphics card that is able to process more colours and information at the same time.

Avoid “clones”. Unlike branded machines (eg, Fujitsu Siemens Computers), the companies that manufacture and sell clones do not invest in extensive research and development. They source components – often at the lowest cost possible – from several suppliers. While clones are generally slightly cheaper than branded computers, their long-term reliability is questionable. Clones can cost you more in the long run as downtime can seriously affect productivity.

For information on trends, services and hardware solutions specifically for the small business market, visit the Fujitsu Siemens Computers website at www.fujitsu-siemens.co.za/sme/index.html.
Software for small businesses

Think of software as a set of tools designed to take the “slog” work out of running your business. The right tools can raise your business to a whole new level. The wrong ones can cost you time, money and a great deal of stress. Choose wisely.

Before you do anything else, decide which operating system you want to use. There are a few to choose from but remember that not all software will run on all operating systems. If a particular program is essential to your business, this will dictate your choice. Microsoft Windows offers the best all-round business support, flexibility and security and is suited to most, if not all, business applications.

Operating systems usually come with a variety of high-quality software included, such as email software for small businesses

Protection software

Computer systems sometimes come bundled with utility software, which handles the housekeeping and maintenance tasks on your computer. By far the most important of these is an anti-virus program to protect your machine from data loss and file corruption. Ask your software vendor about it when you buy your computer, and again when you buy your software. Don’t start using your computer without one. The Microsoft Small Business security hub website offers advice and updates on security issues, as well as a security checklist for users to work through.


Specialist/tailor-made software

Certain work may require specialist or tailor-made software. This can be pricey, and cost does not always reflect quality. Do some research and consult with others in your industry who have used similar applications. See whether your local trade organisation has any recommendations. If you employ a programmer to create custom-made software, use one who is familiar with your type of business and who comes with good references. Also make sure you get all the source code for any programming work that is done. Without it, you won’t be able to get technical assistance if your original programmer moves on.

Visit http://directory.microsoft.com/mprd for a Microsoft partner in your area.
Need your own server?  
Then this offer’s for you

In a small office environment, networking your computers allows you to transfer documents and share printers or an Internet connection. If you have more than five computers, however, you may need to perform more complex tasks like managing email or connecting to your network remotely. You can do this by installing your own server.

This functionality comes at a price, however, and many small business owners are put off buying their own server because of the capital outlay involved.

Microsoft and Fujitsu Siemens Computers are offering Small Capital readers a small business server package that combines a PRIMERGY Econel50 server with a year’s next-day support and Microsoft Small Business Server Standard Edition 2003.

\[ \text{R8495 incl VAT and delivery} \]

Offer valid until 31 March 2005. For information call 0860 737 837 (0860 SERVER).
Connectivity: what are your options?

E-business is not as much about doing business on the Internet as it is about using Internet technologies and the web to improve the productivity and awareness of your business.

Getting your business online can be simple and quick, but choose your service provider carefully. Think about where your business is heading and look for an Internet partner that understands your needs and that will grow your connectivity with your business.

STEP 1: Get connected
There are four connectivity options, depending on your business needs.

**Analogue dial-up:** Ideal for the home user, this offers a dial-on-demand connection that operates through a normal telephone line. It is the most common and generally the cheapest method of access.

**ISDN line:** This is a digital dial-up connection, which is faster and more reliable than analogue. As with analogue dial-up, you pay for the time spent connected. It is ideally suited to people who use the line for short periods, or only for downloading emails. If you are spending over R800 a month on analogue dial-up it’s time to upgrade to ISDN. If you are spending over R1 200 a month on either dial-up option, then it’s time to upgrade to ADSL.

**ADSL:** This is a separate digital line, which means you are permanently connected. It offers stable, secure, dramatically faster Internet access speeds at a fixed monthly cost, regardless of how much or how little you use it. It allows you to use the phone and Internet at the same time.

**Leased line:** This is a dedicated, permanent
connection that offers real-time email and Internet access for a fixed monthly cost. Numerous people can use it simultaneously, and it is ideal for business users who spend eight hours or more a day on the Internet. For ISDN, ADSL and leased line options you have to apply to Telkom for the line to be installed before your service provider can connect you to the Internet.

**STEP 2: Your domain name**
Registering your own domain name gives your business a unique address on the Internet. You can use it for your email addresses (eg, you@companyname.co.za) and for your company website (eg, www.companyname.co.za). The name remains yours as long as you renew it each year. Your service provider can register your domain name for you. The MWEB Business website has a search facility through which you can check whether the domain name you want is available or not. See [www.mwebbusiness.co.za/domains.asp](http://www.mwebbusiness.co.za/domains.asp).

**STEP 3: Get a website**
Creating and maintaining a website is the easiest and most cost-effective way to market your products and services to a global audience. Most service providers offer website design and hosting services specifically for small businesses, for a minimal once-off fee and a fixed monthly cost. Your service provider can also give you detailed statistics to show how many people have accessed your site each day, week or month. The website can also be upgraded at a later stage to include e-commerce capabilities.

**Template vs custom-built websites**

MWEB Business offers small business owners the option of low-cost, easy to set up template-based websites.

- These sites are ideal if all you need to do is display your products, services and contact details.
- They have a very short turnaround time – your website can be live in a matter of days.
- You usually pay a few hundred Rand per month, which includes the creation of the site, the hosting fee, domain name registration, email and Internet access. You can make changes yourself, quickly and easily.
- These sites can be e-commerce enabled at a flick of a switch.
- A customised site, on the other hand, is developed specifically for you. It usually involves the help of a web developer who can give it a specific look that matches your brand and business identity.
- They can cost many thousands of Rands and take a while to develop, depending on how complex you need your website to be.
- Hosting a customised site is not normally included in the price of developing and can be very expensive depending on its size and speed.
Financial foundations

Should you lease or buy? Do you want to merely use the asset in the short term or own it in the long term?

Before you sign on the dotted line, consider the pros and cons of buying vs leasing.

Owning assets increases the value of your business and provides security with which to obtain finance. But few entrepreneurs have cash to buy everything up front, and high loan repayments can kill a company before it has submitted its first tax return. So which is better — to lease or to buy?

Leases and loans are simply two different methods of financing. One finances the use of an asset, the other finances the purchase of it. One isn’t always better than the other and the decision depends on your particular financial situation and business priorities.

Financial leases are the most common by far and are usually written for a term not exceeding the economic life of the equipment. You pay a fixed monthly fee and ownership of the equipment reverts to the owner (lessor) at the end of the lease term. The lease cannot be cancelled and you (the lessee) are responsible for maintaining the equipment.

In an operating lease or “maintenance lease”, maintenance of the asset is the responsibility of the lessor. Computer equipment is often leased this way. An operating lease can usually be cancelled under conditions spelled out in the lease agreement.

Sale and leaseback is similar to the financial lease. The owner of an asset sells it to another party and simultaneously leases it back to use.

Continued on page 24
BUYING: advantages

✓ You own the asset. It can’t be repossessed, unless it has been used as security for a loan.
✓ You are treated as the owner for tax purposes and can claim your own capital allowances.
✓ You don’t tie your business into inflexible medium or long-term agreements that might be difficult to terminate.
✓ If interest rates fall, you may end up paying less than if you were in a fixed-term lease agreement.

BUYING: disadvantages

✗ You have to pay the full cost of the asset up front out of cash or borrowed funds.
✗ Loans and overdrafts cost money. They can also be withdrawn at short notice and early repayment demanded.
✗ You can’t easily spread the cost to coincide with money coming into the business.
✗ You are entirely responsible for maintenance.
✗ You can’t deduct the cost of rental from your taxable income.
✗ You take all the risk.

LEASING: advantages

✓ There is no large initial cash outlay or down payment.
✓ Being able to spread payments over a longer period eases cash flow.
✓ If equipment becomes obsolete you can upgrade it at the end of the lease.
✓ Lease payments are deductible as operating expenses if the arrangement is a true lease according to the South African Revenue Services.
✓ The leasing firm can provide expert technical advice.
✓ In the event of bankruptcy, the lessor has less claim on the assets of a firm than a general creditor does.

LEASING: disadvantages

✗ Leasing usually costs more over the long-term. You also lose certain tax advantages that go with asset ownership.
✗ You lose the economic value of the asset at the end of the lease term, because you don’t own it. Don’t underestimate the salvage value of an asset at the end of the lease — it might be worth buying.
✗ A lease is a long-term legal obligation that you can’t usually cancel. For example, if you were to end an operation that used leased equipment, you might still have to pay as much as if you had used the equipment for the full term of the lease.

Crunch the numbers

The Standard Bank website (www.standardbank.co.za) offers detailed descriptions of the pros and cons of its vehicle leasing and purchasing options. On the home page, click on the “business” menu and then the “asset finance” button near the bottom of the screen.

There are also numerous calculators on the Internet and on many bank websites for calculating the repayment costs of an asset. To compare the costs of leasing vs buying, see www.nebs.com/NASApp/nebsEcat/business_tools/lease.jsp.
for a specified term. This arrangement lets you continue using the asset while freeing up the money paid for it, to use elsewhere. Buildings are often leased this way.

Net or gross leases describe the conditions of a lease in terms of maintenance, taxes and insurance. In a net lease you pay these expenses while, under a gross lease, the lessor is responsible. Financial leases are usually net leases. A full payout lease is when the lessor makes back the full purchase price of the asset during the period for which it is leased.

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Business call lines: Some banks have dedicated call lines for business customers that allow you to resolve queries after office hours and at weekends and public holidays, instead of waiting for the next day or Monday.

Internet banking: It’s simpler, cheaper, faster, and you can do it anywhere, at any time of night or day. Convenience comes with added benefits like being able to move early payments into high-interest bearing accounts without having to go to a branch or pay higher transfer fees. For information on Standard Bank’s Business Online service, go to www.standardbank.co.za. For information on connectivity options for small businesses, go to www.mwebbusiness.co.za.

Computer software: Programs like Microsoft Office Excel can help you to keep track of all your business statistics as well as do loan calculations and comparisons, and monitor investment values. Doing a training course to learn how to use your software properly could pay off faster than you think. For tutorials, visit http://office.microsoft.com/en-gb/training/default.aspx. Also see www.microsoft.com/southafrica/learning.

Telephone and cellphone banking: These 24-hour facilities allow you to manage your banking using your phone and nothing else.
Delegating financial management

Many businesses fail for two reasons: either they do not have a proper business plan or they do not follow it. Keeping a business sustainable means comparing your records to your planned sales costs and cash flow, and taking action if anything goes wrong.

As the owner of a small business it is easy to become caught up in the actual work and lose sight of the fact that you are also needed “at the top”. This is where a financial practitioner or accountant can help. Between this professional and the business owner, the financial management of even a small company should include:

- An annual budget of income and expenses.
- Monthly collation of all invoices, expense vouchers and bank statements for the preparation of financial statements. These include the income statement (which shows what the business owns vs what it owes).
- A set of management accounts that reflect issues such as budget variances, seasonal fluctuations in business and your working capital situation. You must update your business plan continually to reflect the changes discussed.

A Rand in the hand is worth two in the post
Understand the time value of money and use it to guide your business investment decisions. For example, if you invest R1 000 that generates a

SUCCESS TIP:
Leverage your network
“We make the most of our partners’ contacts and alliances, which allows us to work with – and rely on – people who we know and trust. We outsource ‘grind’ work so that we can focus on strategic issues. We also make use of other small businesses, which are often more flexible and cost-effective than larger suppliers.”

LESSONS LEARNT
“Put the right paperwork in place from the start. If someone reneges on a contract your business is depending on, it could cost you everything. Make sure you have a legal agreement to fall back on.”
The figures don’t lie

Proper records will provide the figures you need to prepare:
- A profit and loss statement (preferably monthly for most retail businesses).
- A budget.
- Break-even calculations.
- Evaluations of your operating ratios compared with those of similar types of business.

The value of ratio analysis

Use your income statements and balance sheets to check the profitability and liquidity of your business. Here are some formulas that show, at a glance, how healthy your business is:

- **Return on capital employed**
  \[
  \text{Return on capital employed} = \frac{\text{profit before interest and tax}}{\text{Capital employed}} \times 100
  \]

- **Liquidity (how easily an enterprise is able to pay its debts):**
  \[
  \text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}
  \]
  \[
  \text{Quick ratio} = \frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}
  \]

monthly profit of R20, then over five years you make a paper profit of R200. But over five years, what looks like a 20% return is effectively only 7.4% per annum. You’d make more money, with less risk, by putting the cash in a fixed deposit or money market account.

Learn to do more – with less

Cost reduction is not about arbitrarily cutting any and all expenses. You need to understand the nature of your business costs and how these inter-relate with sales, inventories, cost of goods sold, gross profits and net profits.

In analysing your expenses, use percentages rather than actual Rand amounts. For example, if you increase sales and keep the Rand amount of an expense the same, you have decreased that expense as a percentage of sales. When you decrease your cost percentage, you increase your percentage of profit.

On the other hand, if your sales volume remains the same, you can increase the percentage of profit by reducing a specific item of expense. Your goal, of course, is to do both: to decrease specific expenses and increase their productive worth at the same time.

Before you can determine whether cutting expenses will increase profits, you need information about your business — and that means having a good record-keeping system.

A ratio of “2” is generally believed to be a good liquidity benchmark, but you should also compare your ratio to similar businesses in the industry, and take into account trends within a company itself.

This ratio excludes inventories from current assets, as they can be difficult to convert into cash. Here, a ratio of “1” is generally believed to be a good guideline.
Features include in-depth guidelines for starting and running a small business, how to get the most out of your Microsoft Office Software and essential weblinks and references.

To win one of 100 copies and learn everything you need to know about running a good business, send the following information via email to: mssatalk@microsoft.com, or on a postcard to Small Capital Competition, Microsoft SA, PO Box 5917, Rivonia 2128.

• Your full name
• Company name
• Telephone number
• Email address
• Company address
• Do you currently subscribe to the Microsoft small business newsletter? If not, would you like to receive it?
• Visit www.microsoft.com/southafrica/smallbusiness and tell us what you think of the information available through this portal.

The winner will be selected from a national draw, and the judges’ decision is final. Entries must be received by 30 April 2005. No Microsoft SA employee or members of their immediate family may enter.
Record-keeping: Use it, don’t lose it

Simply put, keeping records means documenting how much money your business receives and how much goes out. This helps control cash, evaluate the success of the business, plan for the future and demonstrate to others how the business is doing.

Good record-keeping helps you to make informed decisions and comply with legal business and tax requirements. One type of record-keeping does not suit all businesses, and your choice of system depends on:

- The size of the business.
- The type of business.
- Ownership structure.
- The record-keeping skills of the owner.

Check the quality of your business’s record-keeping by ticking off the following list, devised by US-based Alberta First, an industry partnership that supports new businesses:

- Are your personal and business financial affairs clearly separate?
- Does your bookkeeping system meet the needs of your accountant?
- Can you easily track your business’s money and its financial performance?
- Are your records up to date?
- Does your accountant spend more time on your financial statements and tax returns, rather than on basic bookkeeping?
- Does your daily cash sheet usually balance without major discrepancies?
- Can you easily access information on money you owe and money owed to you?
- Do you reconcile your bank account at least once a month?
- Do you file copies of all your sales invoices?
- Do you keep a file of all invoices and bills that are paid?
- Does your payroll system work well?
- Are you remitting payroll deductions to the tax authorities on time?
- Do you keep business safety records and customer service records?
- Do you have a clear idea of how much inventory you have on hand?
Electronic filing
If your business handles large volumes of documents, then electronic filing can save you space, time and human resources. There are numerous software programs that offer comprehensive electronic filing and archive capabilities, and which allow you to compare and update information, cross-reference documents and automate certain tasks.

For a small business this could avoid postal delays in transferring information, a lower stationery bill (electronic signatures and billing reduce the need to print hard copies) and greater reliability (unlike paper documents, which can be lost or misplaced).

But hard disks can crash, and computers can be stolen. When your business relies on electronically stored information, you must have a back-up plan, and you must use it.

Back-up and storage
The golden rule of back-up is to make it as simple, reliable and automatic as possible. In devising a back-up strategy, consider the following:

- What data is stored on your system and how would it affect your business if you were without it for a few hours, days or weeks?
- What back-up media is most convenient for you? Tape drives are the most popular option for large enterprises because they are inexpensive, robust and simple to operate. CDs are transportable and convenient for smaller amounts of info, while a designated hard drive could back up large amounts of data or entire systems. Alternatively, fully-automated online server space can be rented from an external company.

Back-up is an issue of discipline, rather than money, and operating systems
like Windows have built-in back-up programs that work with any of the above media. Either way, the potential cost of lost data far outweighs any money or time you spend backing up your information.

Legal implications: the ECT Act
The Electronic Communications and Transactions Act of 2002 (ECT) affects the way an organisation stores its information and the way it conducts business on and through the Internet. The Act covers issues such as:

Record-keeping: Do you record and store all electronic communications and documents as records that could be used as evidence against potential legal claims?

Electronic communications: Email messages, attachments and all the contents thereof are now legally binding, and must be controlled and stored with the same diligence as any other official business communication.

Knowing the conditions of the ECT Act is a must for every business owner. Download a copy from www.gov.za/gazette/acts/2002/a25-02.pdf. Alternatively, ask your Internet Service Provider for information and advice on ensuring that your website and/or email systems are ECT-compliant.

eFiling tax returns
eFiling is a company belonging to the South African Revenue Services that allows you to submit various tax forms and tax payments online. No special software is required – just a web connection and a standard Windows operating system.

It operates through a secure line and offers convenience (24 hours a day), ease of payments and calculations (which are set up automatically), access to a full history of submissions and payments, a quicker rebate cycle, increased security and no capital outlay. There is also a facility to apply for tax directives, which can be obtained within 24 hours.

Some banks have incorporated eFiling into their existing online business banking facilities to help integrate and simplify your financial management. Speak to your bank for more information, or contact SARS on 0860 709 709 or email info@sarsefiling.co.za.

For more options see www.microsoft.com/businesssolutions/solutions.overview.aspx.

Back-up basics
- Make back-up a regular habit.
- Test your system periodically by restoring backed-up data.
- At least once a week, make sure backed-up data leaves your place of work.
- Periodically leave a copy with your accountant or attorney.
- Rotate your back-up media – alternate between two mediums, in case one fails unexpectedly.
Features include Intel® Pentium® 4 Processor 540 with HyperThreading technology; 800MHz Front Side Bus; 1 GB DDR SDRAM; DVD+R/+RW; 8 X USB slots; On-board LAN; 80 GB HDD; Microsoft® Windows® XP Professional; Fujitsu Siemens Computers LCD 17-inch flat panel monitor.

To enter the competition, send the following information via email to za.sales@fujitsu-siemens.com or on a postcard to the Fujitsu Siemens Computers Small Business Competition, Private Bag X75, Halfway House 1685.

• Your full name
• Company name
• Telephone number
• Email address
• Company address

The winner will be selected from a national draw, and the judges decision is final. Entries must be received by 30 April 2005. No Fujitsu Siemens Computer employee or their immediate family members may enter.
Legal requirements

Start your business on solid legal foundations by making sure that you know about – and comply with – the legal requirements that affect your line of work.

Every new business has to register with the South African Revenue Services (SARS) for provisional tax, Value Added Tax (VAT), employee tax and the skills development levy. Remember that SARS regards CCs, companies and trusts as taxpayers in their own right, separate from the individual.

Different tax rules apply depending on the size of your turnover. For example, you are not obliged to register for VAT if your predicted annual earnings are less than R300 000. You can, and might wish to do so anyway, if the VAT benefit is to your advantage.

If you employ staff, ask yourself the following:

- Am I paying employee tax – both Standard Income Tax on Employees (SITE) for salaries under R60 000 and Pay-As-You-Earn (PAYE) for those over?
- Am I paying the skills development levy?
- Am I exempt from these two charges? (If the total amount you pay to all staff per year is below the tax threshold of R250 000, you might not have to register for either of the above.)
- Am I paying UIF? (1% of remuneration to be deducted from each employee’s salary, and another 1% to be paid by the employer. This applies even if your staff receive the minimum legal wage.)
- Am I registered with, and paying an annual fee to, the compensation fund (as stipulated in the Compensation for Occupational Injuries and Disease Act)? This applies mainly to manufacturing enterprises.
- Do I have a copy of the Basic Conditions of Employment Act on my premises? (This can be obtained from the Department of Labour.)
- What is the minimum wage I can pay my employees? (This is outlined in the Wage

SUCCESS TIP:
Know your weaknesses
“Numbers have never been my strength. Employing an accountant who I trusted meant that I could focus on the areas where I am strong, such as marketing and sales. It’s also worth having a mentor – someone whose only interest is your business success. This taught me to work ON my business rather than IN my business.”

LESSONS LEARNT
“If you are worried or upset, it is often not appropriate to share your concerns with your staff as it may unsettle them. It can be difficult to keep yourself motivated when everything seems to be going wrong.”

Cindy Norcott, owner: KZN Business Training Centre and Pro Appointments recruitment agency
Determination Act, and can be obtained from the Chamber of Commerce.)

As a new business owner you should also ask your local council what Regional Services Council (RSC) and other compulsory levies apply (such as on sales, wages, salaries and owner’s drawings); whether any additional trading licences must be obtained or inspections conducted; and if you need special permission to operate your business in the area.

**Tax trimming tips for small business**

**Diarise due payment dates:** This helps to avoid paying interest and penalties.

**Claim maximum retirement annuity (RA) deductions:** The Income Tax Act allows for an additional deduction of R1 800 per year for RA contributions that are in arrears. Arrange with your RA fund to make an extra contribution for a previous year in which you did not claim your maximum deduction. You can then claim this payment during the current tax year.

**A tax shelter business:** If you run a business as a sole proprietor from home, you can claim a range of legal deductions, eg, a portion of your mortgage bond interest, telephone bill, vehicle expenses and entertainment costs. However, the business must generate a small income and have prospects for making a profit in the future.

**Channel income to your children:** A child is taxed in his/her own right, with a threshold of R21 110 per year. If you pay a salary of less than this to your child for work done, you can claim it as a business expense and your child won’t be taxed. Bear in mind that salaries must be in relation to the service rendered, and the child must be 15 years or older.

**Restructure your debt:** Create an “owner’s loan” by selling assets to your business on credit. Use the money the business pays you to settle personal debt, while the business claims the interest it pays on the loan it took to buy the asset. This can be tricky though, so get advice from a good tax consultant first.

**Separate CCs:** When you sell an asset (eg, a vehicle) you are taxed on the profit you make that is above the tax write-off value. If this asset is in the name of a separate CC, you can sell the whole CC. According to the normal tax rules, the profit made is a capital gain and Capital Gains Tax (CGT) applies. CGT applies only to a portion of that profit, rather than the full amount.

One of the biggest advantages of having your own business is being able to split the income within your family. For example:

Mr X draws a salary of R250 000 from his CC, and pays income tax of R58 873,61, leaving an after-tax income of R191 126,31.

If he employs his wife and splits the income equally between the two of them, the total tax bill is R29 930,70 (R14 965,35 each). This leaves the family with an after tax income of R220 069,30 – a saving of R28 942,91.

* These calculations are based on the 2005 tax tables for adults under 65 years. A lower rate of tax applies to people over 65.
Is your software legal?
If the price of that new software package looks too good to be true then it probably isn’t. “Pirated” software is not only illegal, it can also harm your business and damage your computer.

But how can you be sure that you’re not inadvertently breaking the law?
- If you copy software or distribute it, either for home use or for work, without a proper licence for each copy, it is pirated.
- If a computer manufacturer takes one copy of software and illegally installs it on more than one computer, what you are buying might be illegal. Ask for proper licence documentation when purchasing a new PC or software.
- Unauthorised copies of software are often available over the Internet. If you download something make sure that the publisher has authorised this distribution.
- Sometimes illegal software has counterfeit packaging that looks like the original. There are ways of telling the difference — contact the manufacturer if you have doubts.
- The resale of software marked NFR (Not for Resale) is illegal. Watch out for online distributors offering special deals on software bought from “liquidated inventories” or “through bankruptcy sales”. These descriptions are sometimes used to fool consumers into believing that they are getting a genuine product.

Your business software is an asset and should be managed as such. By keeping it legal you ensure that you always have the full value, support and functionality that your business needs to operate at its best. The Business Software Alliance can give you support in making sure that you are using legal software. See www.microsoft.com/piracy.default.mspx.

Do your homework
The Microsoft website has a step-by-step guide to help users determine if their software is legal. See www.microsoft.com/resources/howtotell/ww/default.mspx.

Microsoft also runs a Licence Management Program that helps small and medium-sized businesses gain knowledge and control over software assets. For information see www.microsoft.com/sam or www.microsoft.com/licensing or call 0860 225 567 (0860 CALLMS).
Get a handle on human resources

When a small business gets big enough to need more than one “driver”, it can be hard to adjust. But when you’re ready to start hiring help, here’s how to minimise the worry.

Grow with your business: Analyse the level of help you need, the kind of manager you are and the changes you will need to make to allow a new person to enter the business.

Don’t just offload chores: Hiring is a decision to grow your company, and is not just about getting someone to help you with the overload. Before hiring, tap into the knowledge of other small business owners who have been through the process and think carefully about your strategy for the next few years.

Make a list of tasks: List the company’s critical responsibilities and decide what only you can do, what you prefer to do and what you can delegate. Choose a title and formulate a detailed job description for the new position.

Set expectations for performance: Make sure you are prepared to offer ongoing and constructive feedback.

Don’t rush it: Get a feel for your business cycle – the good months and the bad. Experts suggest saving at least a year’s worth of expenses and overheads before you hire, to see you through any rough patches.

Hire attitude, not skills: If a person is smart, eager and open-minded, training will come easily – especially in a multitasking small business. You will be spending a lot of stressful time together, so choose someone who has a business approach and entrepreneurial spirit that complements yours.
Don’t wait for perfection: A first-time hire must be able to do several things well—not one thing perfectly. If your first choice turns out to be the wrong one, just chalk it up to experience and then keep recruiting.

What staff want
A happy employee is a productive employee. You need to instill faith and make them feel valued. To keep your staff motivated, you must be able to give them straight answers to these three questions:
1. What’s the plan—how will this new company work?
2. Where are the tools, and how is this plan meant to happen?
3. How are the tools best used?

Employee benefits:
A prospective employee is most concerned with the nett or take-home salary. The small business owner, on the other hand, must focus on total cost to company. Calculate what a new employee is going to cost in terms of salary, tax, levies, investment (such as training, new equipment) and benefits.

Some companies now offer healthcare and/or retirement packages specifically structured for cash-strapped small businesses. It’s worth doing your homework, because offering employee benefits can have some financial advantages:
- Plan contributions are tax-deductible.
- Setting up plans for staff might net you better benefits for less money than paying for your own plan alone.
- Some employees might accept certain benefits as a substitute for higher salaries or raises.

Yes or no?

Here are some proven strategies to making employees feel that they matter:
- Recognise individuals. Let them know that they can make a difference.
- Be responsive. Don’t ask for feedback or suggestions and then simply ignore them.
- Tap your top performers as teachers. Encourage your best staff to share expertise through training or mentoring.
- Help them to reach their dreams and goals. If you want them to invest in your success, you need to invest in theirs.
- Create an atmosphere of trust. Don’t spring things on staff without explaining why you’re doing it.
- Don’t be a “superowner”. Ask for input to solve problems or develop strategy. You’ll
end up with happier staff – and loads of new ideas.

Too small for labour law? Think again
Most employers and employees in South Africa, regardless of business size, are subject to the provisions of the Basic Conditions of Employment Act (BCEA) and Labour Relations Act. These stipulate the minimum terms on which any employee must be employed in terms of leave, overtime, working hours and payment, among others. They also provide strict guidelines on dismissal, retrenchment and dispute resolution procedures.

With respect to small business, the Acts cover prospective employees (job applicants) as well as former employees, but NOT independent contractors, ie, people who sell their services to the public and who do not fall under the control of an employer. Businesses with 50 employees or more are also subject to the Employment Equity Act, which requires the company to have a formal policy or affirmative action programme in place.

Certain industries may, by their nature, involve different employment conditions to those prescribed in the Act, and the BCEA makes provision for this either through special agreements with trade unions, individual agreements with employees or formal variations granted by the Minister of Labour. For example, the section of the Act that regulates working hours does not apply to workers in senior management or who earn more than R115 572 per year.

Know what’s right

This site also has a series of simple “plain English” guides explaining different aspects of the law. Hard copies can be obtained from regional contact centres.

For the number of the centre nearest to you, call the Labour Department Head Office on (012) 309-4000.

Top 10 HR mistakes
Lack of policies and procedures. Employees need to feel they are being treated fairly and consistently.

Misunderstanding probationary periods. If an employee is going to fail it should not be a surprise.

No job description. People need a clear expectation of what they should be doing.

No contracts. Legally, all employees must receive written terms and conditions of employment.

No performance feedback. Motivated employees need to know the goals of the business, your expectations for their performance, and if they are meeting them.

Avoiding conflict. A small problem could become a major issue later.

Using contract workers to circumvent legislation. This may result in problems if an employee has a reasonable expectation that his/her contract will be renewed.

Management attitude. You are all on the same team, working for the good of the business.

Lack of communication. Share ideas, inform your employees and build trust.

High expectations. People don’t learn by doing things perfectly the first time.

Based on an article by Rachel Manzie of HR Dynamics
Get the most out of teleworkers
Many small businesses use staff or contract workers who work away from the office. Studies have shown that this can cut expenses by as much as 40%, reducing your fixed costs such as office space, furniture and fixtures, utility bills and office consumables.

However, keep in mind that teleworkers pose a different set of management challenges to normal office staff. Here’s how to get the most out of them:

**Explain the mission and job:** Create a written agreement to explain your expectations, how the work will be evaluated, what defines success, and when and how reviews will occur.

**Review policies and benefits beforehand:** Make sure these are in line with the BCEA. Hiring a freelancer to avoid employment laws and regulations could open you up to legal action.

**Stay in touch:** Besides regular phone calls, bring teleworkers into the office for periodic updates, to maintain ties with the rest of the staff. Make sure they have the same access to HR systems, benefits and policies as on-site employees.

**Understand who works for whom:** If you use an agency to find contract workers, make sure that everyone understands that the agency is responsible for issues such as salary payment. Discuss problems with the agency before you address the employee.

**Measure productivity, not activity:** The lack of face-to-face contact makes it harder for teleworkers to prove themselves. Create clear performance benchmarks.

**When is a contractor NOT a contractor?**
The Labour Court may not accept the title of “independent contractor” at face value. Contractors may be legally regarded as employees if they:

- fall under the direction of the employer.
- work hours that are subject to the control of another person.
- form part of an organisation.
- are economically dependent on the employer.
- are provided with tools or equipment.
- only work for one employer, and have not worked for at least one other person for a minimum of 40 hours each month, over the last three months.

For example, Microsoft Office 2003 ([www.microsoft.com/office](http://www.microsoft.com/office)) and Microsoft Windows SharePoint Services allow for easy collaborations of off-site contractors or teleworkers. SharePoint can set up a website for document storage and retrieval that gives every user check-in and check-out privileges, among other things. By integrating the two software systems, teleworkers can collaborate, plan, schedule and interact with one another in real time.

For more information visit [www.microsoft.com/sharepoint](http://www.microsoft.com/sharepoint).
Make sure you’re covered

Although you don’t have to insure everything, you must be sure that your business can take the knock if things go wrong.

Business insurance is all about managing risk. Packages can be tailored to suit your specific budget and business needs, but all are based on three core types of cover:

**Liability:** This protects a business from financial loss as a result of injury, death or property damage caused by the business’s operations, employees or products. For example, you would be covered if a client is injured in a fall on company property, or if one of your products makes someone ill.

**Property insurance:** This protects the value of physical assets like buildings, vehicles and equipment, either in terms of the replacement cost or actual cash value.

**Business interruption:** If a business closes because of an insured property loss, this coverage will pay ongoing expenses such as rent, utilities and some or all payroll expenses. It could also include “extra expense” insurance, which covers the costs that you might incur in order to speed up the restart of operations (eg, using

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**Before you take out an insurance policy**

Before signing any insurance paperwork, ask yourself the following:

- What do I want loss protection for?
- How much are these items worth? (Be realistic, don’t under- or overestimate.)
- What kind of coverage do I need – what is it I want protection from (eg, fire, theft, everything possible)?
- Who would I like to be covered (all employees or only certain staff)?
- What exclusions or conditions apply to my current or prospective insurance packages and do these restrict my business operation?
- Is my insurance policy tailored to suit my specific needs or are there other more suitable/cost-effective options?
Insurance checklist

Have the following information at hand, or in an easy-to-access place, in case of an emergency:

- Insurance agent (name, telephone number and after-hours telephone number)
- Policy numbers
- Location of original policies
- Deductibles
- Coverage limits
- Replacement cost or actual cash value
- Equipment serial numbers and invoices/proof of purchase

Lessons learnt:
“Focus on what you’ve decided to do, regardless of what anyone else – including the banks – might say. Have faith in yourself, your ideas and your beliefs, as this is what will carry you through the hard times. Don’t give up – success could be just around the corner.”

SUCCESS TIP:
Be respectful and disciplined
“Respect yourself and the people you work with. Be incredibly disciplined about finance. Don’t think of the profit as yours – it belongs to the company and most of it should be reinvested. Personal materialism is not the point of being in business. Employ an auditor to keep you in line and surround yourself with people who know what they’re doing.”

If a company suffers financial loss due to mismanagement, the response is often to sue the directors and officers. Directors’ and officers’ liability protects both the company and individual executives. Small businesses should also consider Keyman insurance. This is appropriate where one or two individuals are critical to a business’s success. It works the same way as a life insurance policy, except that the death benefit goes to the company, rather than the individual’s family.

Insurance essentials
Some basic insurance is usually compulsory for a new business that is taking out a bank loan or looking for investors. For example, comprehensive business mortgage insurance is essential for all business mortgage loans. This is usually arranged automatically by your bank when the bond is registered. The property is then fully insured for the duration of the bond agreement.

Basic business insurance can also include bad debts, burglary, cash-in-transit heists, hijackings, employee insurance, fire, loss of profit, natural disasters, personal insurance, public liability and vehicles.

If you operate a home-based business, don’t be lulled into a false sense of security. Many homeowner insurance policies limit or exclude business-related equipment. Check your homeowners policy very carefully before you rely on it for the business as well.

a courier to deliver new equipment in three days, rather than waiting two weeks while it is shipped. However, check that your policy kicks in within a few days of the event. Several weeks without income could destroy your cash flow.

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You can only start marketing your business effectively when you are able to do the following:

1. **Define your business** – from a customer’s point of view – in 30 words or less. What do you want to be known for, what do want to accomplish?
2. **Describe your point of difference,** or unique selling point. Why would customers come to you rather than anyone else?
3. **Create an image.** Your logo is the “face” of your brand. Whether you hire a professional to design it or you produce it yourself, your logo must match your brand (as described in the two points above). Keep it simple. You need to be able to communicate your company name and an emotion in less time than it takes to sneeze.

Local reputation management and training consultant, Deon Binneman, outlines the following as being essential to any small business marketing strategy:

- **Identify your customers.** Who is your ideal customer, including his/her age, income level, geographic regions, education level?
- **What’s on their wish list?** Discover what makes them tick, what they need, what products they use and how they use them.
- **Define your competitive advantage.** What is your company good at doing? What do you like doing?
- **Relate to emotional buy-ins.** What words, feelings and emotions will make your product appeal to your customers?
- **Build your reputation.** Do more than you are expected to. Build credibility by maintaining high standards of quality and reliability.
- **Constantly ask yourself.** How can you provide what your customers want, better than anyone else?

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**Low-cost marketing strategies**

**Marketing via email:** Today’s software makes it possible to easily create and send electronic...
Microsoft Office contains a selection of software programs, such as Microsoft Publisher, Powerpoint and Easy Website Builder, that small business owners can use to create their own logo, stationery, forms, catalogues, newsletters, presentations and even Internet home pages. Publisher also gives a checklist for you to follow if you want to send your documents to a professional printer.

Don’t know how to do it? Don’t worry – detailed do-it-yourself training modules available on the Microsoft website will teach you how. See www.microsoft.com/southafrica/learning.

Make it look good

Newsletters, include contact details and logos at the end of every email message, and automate communication so that it can be sent out while you’re away. In some cases you can also integrate your email software with other business data, allowing you to keep customer information in one place and monitor your contact with customers.

Marketing via the web: When approached correctly, the Internet can boost your ability to deliver products or services and market yourself to a larger audience. It is a cost-effective means of building your brand and generating new business.

Become an expert: Share your ideas and understanding of your business and offer advice that positions you as an expert in the field. Read widely. Raise your profile by giving comment to the media, conducting presentations and actively joining professional associations.

Network: People like to do business with those who they know and trust, and networking allows you to build relationships.

Use your customers as your salespeople: The only thing customers will remember is how you helped them. Don’t just sell them a product, solve their problems.

Ask your customers for referrals: If they’re happy with your service, they won’t mind recommending you to someone else. Give leads in return, and make sure they are reliable.

Look after your resources: Maintain good relationships with your own suppliers, friends and associates. They’ll be willing to share advice and spread good word-of-mouth.

Manage your information: Compile and maintain a database of likely customers and media contacts and use it to manage your relationships. Constantly update the lists and use them to keep track of who you communicate with, and how often.

Direct mail: Send a personalised letter and company brochure/profile to keep in touch with existing customers or to target prospective ones. Always address it to an individual and include a feedback mechanism, such as a special discount. Follow it up with a phone call.

Form alliances: Link up with another business that has a similar customer base, so that you can cross-sell your products and services. For example, if you own a hobbies and crafts shop, join forces with a local artist and run workshops together.
Position your product: Is it the right product or service for your market? Does your customer think it’s a good deal? How readily can your target customers find this product or service?

Brainstorm: Who are you selling to and what do they need? What distinguishes your product or service from the competition? Which marketing tactics will make your products noticeable?

Listen to customers: What influences their purchasing decisions? Based on these, what are your strengths, weaknesses, business opportunities and threats?

Draft the plan: Summarise your market position and goals, define what you want to achieve by when, list target markets and strategies, allocate expenses and resources, identify which marketing channels you will use to attract customers and formulate competitive strategies.

Track results: Create benchmarks to measure whether your marketing efforts are paying off. Review your plan each year.

Cross-sell to existing customers: Get to know your customers and their business, and identify other areas where you could be of service. Make yourself indispensable.

Create a good impression: The key to successful marketing is not how good you are but how you are perceived. Listen, instead of talking, and ask instead of assuming.

Get listed: Be listed in as many directories as possible – free or paid for, printed or electronic.

Guerrilla marketing: Focus on activities that deliver the most visibility for the least money. Understand what you’re going to get out of a marketing activity before you spend your money.

Donate your services to charity fundraisers: This is a great place for you to give back to your community and receive recognition at the same time.

Don’t stop! Set yourself marketing goals for the next six months, choose tactics to achieve them, and then go for it. Base your goals on the SMART principle: Specific, Measurable, Achievable, Realistic, and Time.

5 easy steps to create a marketing plan

For marketing tips and advice, visit the Microsoft SmallBusiness Centre at www.microsoft.com/smallbusiness/issues/marketing/hub/mspx.

For a cost-effective website, look no further …

Your first attempt at any business venture is a mix of opportunity and excitement. With the growing number of users going online, the Internet has become rife with opportunities for a business to have a dynamic online presence.

MWEB Business is offering Small Capital readers a special offer on the Genesis 2 Lite template-based website application. This provides an entry-level, fast, low-cost solution to your need for a professionally built website. Genesis 2 Lite features:

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- Your website can be ready in seven days from the moment we receive all the necessary details.
- Price includes all training, and hosting for up to 5MB.
- Site can be easily upgraded to an ecommerce site at a later stage.

R342 once off set-up fee, incl VAT
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For more information go to www.mwebbusiness.co.za/packages.htm or call 0860 100 127.

By Joanna Krotz, co-author of the Microsoft Small Business Kit
Old age and new technology are not supposed to make happy bedfellows. But in the case of Wesley’s Tobacconists they cosily pair up into a marriage of old-fashioned customer service via a new-generation medium.

At the age of 63, Colin Wesley launched a website for his family tobacconist chain for quite the wrong reasons, business-wise. Contrary to everyone else who hoped to ride the crest of the dot.com wave at the time, he was not concerned about making money from his website in the short term. “We wanted to find a way of inexpensively keeping in touch with our customers, timeously communicating to them about new developments and special offers, and offering them an efficient mail order service,” says Colin.

As his company had grown and acquired more franchise operations and developed a wholesale arm, Colin felt he was losing touch with his customers and not able to share his passion for, and information on, pipes and cigars with them.

The fact that Wesley’s had started a Cigar Club in conjunction with Business Day at the height of public fascination with cigars and their associated lifestyle, provided him with a good base from which to launch a website. “We had an existing mail order client base for customers who were not close to our city outlets, a club member base and good old bricks and mortar outlets through which to gain access to more aficionados.

“This, coupled with legislation in the mid-1990s prohibiting tobacco companies or retail tobacconist outlets from advertising in any form whatsoever, made us believe that an electronic presence was a good move, possibly even essential to our continued success.”
“In a sense, circumstances forced us into an electronic presence. We knew South Africa was not yet ready for it, but we had to seize the gap by being the first tobacconist to have a web presence.”

**WWW = work, work, work**
The decision was easy; the implementation a little more challenging.

Firstly, it took a number of years to sort out the intricate details required for a purchase site, gain access to a safe shopping portal and provide the minutest detail of every item in the 1 200-plus inventory.

Secondly, it proved prohibitive to hire outside expertise to manage the website. Fortunately, the “can-do” approach of his wife Gillian, and her computer-erudite sister Dee, who was disillusioned with the teaching profession, led to the decision to manage it themselves. (This initiative spawned another small business, Deezine: dee.k@mweb.co.za.)

“We do everything: from coming up with the ideas for the content, writing the articles and taking the photographs, to taking control of the inventory, and uploading everything onto the website. If we had to employ outside people to do all this, it would have cost a fortune,” says Gillian, who is the prime driver behind the website.

Despite the promise of technology’s ability, a website is hard work and requires constant attention. With an overseas trip looming, the couple have to ensure sufficient content and special offers to keep the website updated in their three-week absence. And the constant need for new ideas, or innovative approaches to special offers, is particularly challenging.

Some of the most successful retail websites are those that have bricks and mortar outlets to support the Internet business, and Wesley’s experienced this first-hand. “Many customers go into an outlet because of something they saw on the website. And often they will be enticed to buy something else because the shop’s interesting alternatives distract them from their original goal.” Thus the two forms of retail complement one another.

“One thing is certain: you are not assured of making money out of your website in the short term,” says Colin. “We use the site as an educational medium for pipe and cigar lovers as well… and a website will work for you if it:

- **DISCIPLINED** enough to ensure your information is frequently updated, inventory control is meticulously managed and information or special offers appear on the same day each week.
- **CONCERNED** enough about your customers’ needs to find out what they want.
- **COMMITTED** to invest a vast amount of time in promptly responding to email requests for information.

… and a website will work for your business only if you are:

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- **COMMITTED** to invest a vast amount of time in promptly responding to email requests for information.

- **DOES NOT CONFUSE** – people don’t like to puzzle over how to do things. Your website must be simple, obvious and easy to use.

As a communication tool with our customers. By carefully structuring our special offers and seasonal content, we use the website to ‘pull’ customers into the franchise outlets. Basically, the website is just another shop for us.” (“One with low rent, high costs and little income at present,” quips Gillian.)

Wesley’s runs a parallel purchase site, which is managed by MWEB Business’s shopping portal, SafeShop. “When we started we had to weigh every single item for listing and postage. We totally underestimated the work required,” admits Colin.

“What we had hoped for when we started out was that we could apply modern technology to a traditional retail set-up and communicate more effectively with our customers. In that goal

Now put that in your pipe and smoke it.
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What Internet package would suit your business best? What type of connectivity do you need? What other services are available? The MWEB Business Advisor will help you find the answers.

For a FREE copy of the MWEB Business Adviser, email the information required (see right) to adviser@mweb.com, or send it on a postcard to Business Adviser request, MWEB Business Marketing, PO Box 84631, Greenside, 2034.

To WIN this package and expose your small business to a much bigger market, send the following details via email to website@mweb.com, or on a postcard to Small Capital Competition, MWEB Business Marketing, PO Box 84631, Greenside, 2034.

• Your full name
• Company name
• Telephone number
• Postal address
• What is your core business?
• How long has your business been in operation?

The winner will be selected from a national draw, and the judges’ decision is final. Entries must be received by 30 April 2005. No MWEB employee or their immediate family members may enter. Winners must be prepared to transfer existing Internet services to MWEB. Internet access upgrades will be charged at full price. Installation of digital lines will not be the responsibility of MWEB. Winners will need to make themselves available for website training. Domain registration dependant on availability of choice.
Where to learn more

Training courses

**Boston Business College**
Entrepreneurship diploma (small business management, business communications, basic bookkeeping, accounting and advertising, Excel, Word, Windows XP).
Contact: Braamfontein branch, tel (011) 339-2153, fax (011) 339-2158.

**Wits Business School**
Development programmes in the fields of general management, HR (eg, labour law), finance (eg, finance for non-financial managers), marketing and specialised topics.
Contact: tel (011) 717-3600, [http://wbs.mgmt.wits.ac.za](http://wbs.mgmt.wits.ac.za)

**Birnam Business College**
Business Management (Marketing), including management, communication, marketing, bookkeeping and administration.
Contact: Head Office, tel (011) 887-2545 or email birnam@worldonline.co.za

**Damelin Management School**
Small Business Management Certificate (part-time over four months); Business Management Development Programme (part-time over seven months) – a qualifying course for people who want to do an MBA but don’t have an undergraduate degree.
Contact: 14 colleges nationwide.
Braamfontein tel (011) 242-3400;
Durban tel (031) 310-2800;
Cape Town tel (021) 686-8991;
Port Elizabeth tel (041) 581-2999; [www.damelin.com](http://www.damelin.com)

**MWEB Business tutorials**
PDF format tutorials on getting a business online, access methods, surfing the web, shopping online, Internet banking, security and business mail. Available on the MWEB Quick Reference Guide CD available on request from MWEB Business – toll free on 0860 100 127 or email business@mweb.com
Online resources

http://small-business-hub.co.za
A meeting place for people in small business and entrepreneurs.

www.successfulbusinessplans.com
For a free business plan template, and quick and easy general guides.

www.jumpstart.co.za
Business advice and venture capital for entrepreneurs in the technology (financial sector), media, telecoms and tourism industries.

www.myownbusiness.co.za
A site within the Moneyweb network that offers support, news and advice to South African entrepreneurs.

www.seda.org.za
The Small Enterprise Development Agency, a development and support agency operating within the Department of Trade and Industry.

www.upstarts.co.za
Founded by Mark Shuttleworth, Upstarts provides facilities and business support services to entrepreneurs.

www.entrepreneur.co.za
Information to support and help develop entrepreneurs.

www.bizassist.co.za
A database of businesses offering services or products to one another.

www.bizland.co.za
Applications, services and information that are indispensable to the small business.

http://africa.smetoolkit.org/
Free software, forms and tools for small business in Africa.

www.theinnovationhub.co.za
A hi-tech business hub in Gauteng that provides business support to technology-rich and innovation-based businesses through their start-up, survival and growth stages.

www.realbusiness.co.za
Real Business, a printed supplement in Business Day on the third Monday of every month, has a huge store of online articles to help manage a business. Topics include management strategy, leadership, marketing, BEE and starting out.

Equipment rental

www.spartan.co.za
A Microsoft-affiliated provider of rental and finance solutions for certain types of technology hardware and software assets. These include rentals, support and maintenance, upgrade options and insurance. Spartan can be contacted on tel (011) 886-0922.

Software vendors

www.microsoft.com/southafrica/solutionware