

2011

Business Start-up Guide



BUSINESS START-UP GUIDE

INTRODUCTION

Starting your own business is a big step. It is exciting, challenging and even a little bit scary all at the same time. There are some important things to think about and some big questions to ask before going into business for yourself:

1. WHY?



Ask yourself – why do I want to start my own business? It might be because you want more independence or flexibility in your work. Or because you want to provide financial security for your family in the future.

2. WHAT?



Ask yourself – what is my business idea or what will my business do? What will my business sell (it might be products such as shoes or services such as accountancy)? To start the process of developing a business idea think about what you enjoy doing or what talents and skills you have. Many people have taken something that they do as a hobby and grown it into a successful business.



REMEMBER that running your own business can bring you much joy and satisfaction but can also bring problems and anxieties. And, above all, running your own business is hard work. You might look at business owners and think that they have things nice and easy but if you ask them, they will all tell you that they have faced challenges and setbacks and have had to work very hard to overcome them and keep going to get to where they are today.



Ask yourself – is this for me? Running a business is not for everyone and it may not be the right path for you. Or it may be that it is not the right road for you just now.

If you have asked yourself these questions and are confident that starting a business is the right thing for you, **CONGRATULATIONS!!** We hope the information in this guide will help you start on your journey in the best possible way.

THE PRACTICALITIES OF STARTING A BUSINESS

DEVELOPING A BUSINESS IDEA

As with most things, the success of a business project depends a lot on the planning and preparation. The first step in preparing to start your own business is to develop a good business idea.

✓ **DO** be as creative as you can. List as many different ideas as possible and then narrow down to the one or two that are the most likely to succeed.

✗ **DON'T** make the mistake of simply copying what someone else is already doing – all that this leads to is more people making not very much money because they are competing for the same customers.

✓ **DO** get input and advice from family, friends and people who are already in business. Talk to people you can trust who will help you look at your ideas from different viewpoints to help you develop them.

✗ **DON'T** get carried away. Just as a baby has to crawl before she walks, so you need to start small and then grow. One of the most common reasons for new businesses to fail is that they have grown too quickly.

✓ **DO** choose something you feel passionate about doing, something that you believe in.

RESEARCHING THE MARKET



Who are my customers? Where are they? What do they want? What are they prepared to pay? Who is my competition and what do I know about them? What is the best way for me to promote my business?

All of these questions and more form part of the 'market research' that you need to do in order to decide whether your business idea is a good one -- one that will make a **profit**.

INTRODUCTION TO MARKETING

To be successful you need to *market* your business. In other words, you need to get information about your business and what you sell in front of people who are potential customers.

*Add up all the money you have made from sales then take away all the costs that have to be met. What is left is the **profit**.*

Word of mouth: This can be your biggest asset, especially in a small community like Vanuatu. Make sure that every customer walks away happy. There's nothing better than a satisfied customer who refers their colleagues, friends or family to you.

Be visible in the community: Are there charities or organisations in your community you can provide products or services to for free, or a sporting or community group you can assist with sponsorship? You will be amazed at how many contacts you can make this way and you'll have the added satisfaction of contributing to the wider community.

Special offers: Depending on your type of business, think about having seasonal specials, group discounts or something extra for new customers.

Advertise: It is true that advertising can be very expensive. It is a good idea to start small, with something like an advertisement in the classified section of the newspaper or a poster on a community notice-board or an item in the school or church newsletter.

WRITING A BUSINESS PLAN

It is tempting to jump straight in and start selling things but being too hasty can lead to problems and these problems can be great wastes of time and money. The first step in starting any business is to make a business plan to help organize your ideas. Also, a business plan is essential if you plan to ask for financial support for your business.

What does the business do? – Brief description of goods or services you sell

What is your 5 year plan for the business? What is your vision for the future? - Discuss here things such as: the value in value of sales you expect to have, the number of employees you will have, the products you plan to have, the number of **units** you want to sell, the location of your business, etc.

*A **unit** is the quantifiable amount that you sell. If you sell eggs in boxes of 12 then the **unit** is the box but if you sell them singly then the **unit** is the egg.*

What are the main products or services that your business will sell? What will be the key features of your services or products? What should the average price of each product or service be?

Which industry or sector will your business be part of? Describe the key features of the industry or sector your business will be part of. Consider whether the industry/sector is growing or getting smaller and explain how these trends will affect your business.

Where are your customers located and what do they look like? Do you plan to sell your products or services in your local community or send them to another island or export overseas? Whether you plan to sell to individuals or businesses, you need to know something about them (for example, age, gender, type of business, size of business).

Who will be your biggest customers? Who do you expect to sell most of your products or services to? How will you find them? How will they find you?

Who will be your main competition? List the names of your competitors and the products they offer.

How will your business be able to offer something different from the competition? Show why customers would want to buy products or services from you rather than from the competition (for example, our price is better, our product is better quality, we are in a more convenient location).

What are the strengths and weaknesses of your business as compared to the competition? For example, are your staff better qualified or is your marketing more professional and effective? Be realistic.

DEVELOPING A BUDGET

It is very important to start thinking about how much it is going to cost to set up and run your business. This will help you decide when you can start operating, whether you have to find some funding elsewhere (see below for more on this), how much you will need to charge your customers and so on



REMEMBER, you need to allow for enough funds to make all the purchases that come with starting a business plus you need to be able to keep going through the beginning period where you are doing lots of spending but not making many sales so your **cashflow** is not yet developed enough to cover the costs.

At the very beginning of starting up a business, you will need to establish a set-up budget (which covers all the costs that you will pay on setting up the business) plus an operational budget (the ongoing costs that have to be met during a period – such as the first 12 months – of business operation).

What goes into your budget will depend on the particular details of your business. However, there are a number of budget items or lines that are common to most if not all businesses. In the box below you will see some of the items that you may need to include in your set-up budget:

Licences & permits premises & utilities Legal costs	Equipment Cash reserves on hand to support cashflow Vehicle purchase	Stationery	Packaging	Advertising Inputs to go into products for sale	Deposits on
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There are usually three parts to an operational budget.

One part relates to income or revenue – in other words, money that is coming into the business.

Next, there is the **COGS** and it is very important that you know what your COGS is so that you can put the right price on the products or services your business supplies. These costs depend on how many units you produce.

COGS = 'Cost of Goods Sold' – this relates to the costs that the business incurs that relate directly to what is sold, including raw product, labour, packaging, etc.

Finally, there are your overheads – the ongoing costs you have to cover to keep the business in operation (things like rent, gas, electricity). These costs don't depend directly on how many units you produce.

<i>Income/revenue</i>	<i>COGS</i>	<i>Overheads</i>
<i>Accumulated savings</i>	<i>Raw materials</i>	<i>Licences & permits</i>
<i>Loans</i>	<i>Packaging</i>	<i>Rent</i>
<i>Income from sales</i>	<i>Labour costs</i>	<i>Telephone, Internet, stationery</i>
<i>Other miscellaneous income</i>	<i>Transport costs</i>	<i>Insurance</i>
	<i>Power</i>	<i>Vehicle running costs</i>
		<i>Loan repayments & interest</i>

Follow this link to a budget template document you could use for your business: <http://www.smetoolkit.org/smetoolkit/en/content/en/7/Cash-Flow-Budget-Worksheet>

CHOOSING THE RIGHT LOCATION

Think about the best place for your business to be located. Locating your business within your home can keep your costs down as compared with having to buy or rent a separate space for your business.



How easy is it for my customers to find me? Is the location properly serviced and equipped for the business I plan to operate? Are the premises secure and a safe place for me and my staff to work? Is it easy to get to the location using public transport and/or is there enough parking for people who drive to the

business location?

If you have your own land to use for your business this will provide a very good start for you. If you need access to land, you may be able to agree to lease land from a family member or a landowner in your area.

SETTING UP BUSINESS RECORDS

Business records need to keep track of things such as: purchasing, sales, **debtors** and **creditors**, cashflow, salaries, details of suppliers, details of clients. Your business records will help you see where the strengths and weaknesses of the business are. They will also be important for you to use when dealing with the bank or another funding partner to demonstrate that your business is a good one to support. You may also have to produce business records to government officials and agencies to show that your business is complying with the law. Make sure your business records are able to do all the things that are required of them.

Debtors are individuals or businesses who owe your business money and **creditors** are individuals or businesses to whom your business owes money



REMEMBER whether you have lots of business records or just a few and whether they are manual or computerised, it is very important that they are current. Make sure to update your business records regularly, such as each week.

FUNDING THE BUSINESS

Once you have decided on your budget (see above) and worked out what your cashflow is expected to be, you will need to decide how to fund your business. The funding needs to cover the start-up costs plus provide enough of a reserve to keep things going in the initial period, until the business income is enough to cover all of the costs. There are a number of ways in which you can fund your business, and you may want to combine two or more methods of funding.

✦ *Personal savings* ✦ *A VANWODS loan* ✦ *A 'non-contributing members' loan for business development from VNPF* ✦ *A commercial loan from a bank or finance company (such as Credit Corporation).*

APPLYING FOR A LOAN FROM VANWODS

To apply for a loan from VANWODS, become a member either by joining with an existing VANWODS group or by forming a new group (there will need to be a minimum of 35 members in your group). You will need to make an initial payment of VT1,400 (VT1,000 opening pledge payment, VT200 membership fee and VT200 for a passbook) and then save for 4 weeks to show your commitment to the VANWODS principles and to earn the trust of the people in your group. After that you can apply for a VANWODS loan. For more information, pick up the "Loans and Savings" brochure from any of the VANWODS offices (located in Port Vila, Luganville, Lakotoro and Lenakel).

APPLYING FOR A BUSINESS DEVELOPMENT LOAN FROM THE VNPF

A VNPF member who is non-contributing at present but has contributed in the past may take out a loan against what is held in their 'investment account' at VNPF (which represents 25% of the total contributions). The minimum amount

that can be borrowed is VT45,000 and in order to apply for a loan, you need to have completed a training course at the Vanuatu Chamber of Commerce and Industry on business and financial management.

APPLYING FOR A COMMERCIAL LOAN FROM A BANK

You can approach your bank for a loan to start up your business. Your bank will expect to see that you have an established relationship with them or with another bank and that you are able to keep your bank account in credit and save money. They will need to see your business plan and your budget and will expect you to be able to provide information about what you expect your cashflow to be to show that you will be able to make the necessary repayments. The bank may want you to provide some form of security for the loan, which can take the form of money on deposit or assets or a combination of the two. Your bank's small business adviser can provide more information about what the bank offers and can help with the application process.

BASIC BUSINESS MANAGEMENT TOOLS

Even if your business is and always stays very small, it is important to have some basic things in place to make sure that it is operating in an effective and efficient way. Here are some examples of some very basic management tools that every business needs:

- ✪ **A separate bank account** – your business should have a bank account that is separate from any personal accounts you may have – shop around to find out which bank offers the best product in terms of services offered and fees charged.
- ✪ **A telephone number** – when you are in business, people (customers, suppliers, etc.) need to be able to contact you. A mobile phone number is fine but you need to keep the same one and you need to have credit so you can make use of the tool as you need to.
- ✪ **A means of recording movements of money** – whether you use a cashbook, a computerised system (e.g. MYOB) or a combination of the two you need to be able to record income received and money spent by the business.

NETWORKING

Networking is very important as a way to build and sustain your new business. Your existing networks and circle of support provide the ideal starting place for promoting your new business. Depending on what your business sells, you may be able to meet potential customers through your church, the school council, your sporting team, your neighbourhood – there are many opportunities to make new connections to help your business to grow.



REMEMBER to choose the right time and place to do your networking. It is important to be respectful and know when it is appropriate to “talk business” and when it is not appropriate to do so.

Increasingly, you can use technology including e-mail and social networking sites (e.g. Facebook) to make connections that can help your business to develop.

BUILDING ALLIANCES & SHARING TALENTS

Some people mistakenly think that to succeed in business you have to isolate yourself from others so that they cannot steal your ideas or your customers. But being in business is also a great opportunity to build alliances with

other individuals or groups as a way of sharing resources or combining talents and expertise to get the most out of available opportunities to everyone's advantage.

DON'T BE AFRAID TO ASK FOR HELP

It is important when you start out in business to know that there are people or organisations you can turn to for help if a situation comes along that you have not encountered before or you are finding problematic. Who you ask for help will depend on what the issue is you are addressing. It might be a family member or a friend who has experience in business. It might be the business adviser at your bank, your accountant or your lawyer. If you are approaching a professional for advice for which you will have to pay, get recommendations from people you trust.

THE IMPORTANCE OF FAMILY SUPPORT

Successful businesswomen will tell you that support of their family is a key factor of their success. Think about how you being in business will affect your family. Talk to various family members about how you starting a business will affect them as individuals and the family as a whole.



How will having a new business affect our family finances? How will me running a business affect child care or caring for elderly family members? How will we be affected if I run the business from our home? What if I have to be away from home for business? How will our family be affected if I need to work in the evenings or at weekends?

COMMON PITFALLS & MISTAKES

It is well known that the majority of small businesses fail in the first one or two years. To avoid your new business being one of the casualties there are some common pitfalls or mistakes to avoid:

- ✱ *Lack of planning* – Avoid launching into the “doing” of the business before you have done enough planning.
- ✱ *Not getting to know the market* – What do the customers want and what are they prepared to pay for it?
- ✱ *Failing to reinvest in the business* – To keep the business going and growing you need to be able to reinvest – to repair or replace equipment for example or to expand the premises.
- ✱ *Taking on too much too soon* – Avoid growing too fast.
- ✱ *Managing the balance between the business, family & cultural commitments* – Maintain a sensible and healthy balance between business, family and community activities.
- ✱ *Not understanding the basics of business & financial management* – You might have the best product and be supplying it to lots of customers, but the business may not survive if you don't pay suppliers or recruit the right staff.
- ✱ *Having unrealistic expectations at the beginning* – It usually takes longer and costs more to get a new business up and running than you expect. You need to have access to enough cash on reserve to support the business and meet all the costs until you are really making money.

BUSINESS FORMALITIES

Generally speaking, business formalities are processes or activities that require you to deal with the government or an official agency. Some of these formalities will be important for you to consider at the very beginning of your life as a business owner. Others may become more important later on if your business grows. If you are unsure about

whether you have to complete one or more of the formalities that are covered here, you should get advice from the agency concerned or a business adviser.

KEY GOVERNMENT AGENCIES & WHERE TO FIND THEM

VANUATU FINANCIAL SERVICES COMMISSION

The VFSC is located in Companies House which is on Rue de Bouganville in Port Vila. They also have an office in Luganville which is located in the Millennium Building, next to the Mobil petrol station. Website: www.vfsc.vu

VAT OFFICE

The VAT office is part of the Department of Customs & Inland Revenue. In Port Vila, their office is located next to Rates and Taxes behind the Chinese Club in the centre of town. In Luganville, their office is in the Millennium Building (upstairs) which is next to the Mobil petrol station. In Lakotoro you will find them next to the National Bank and in Lenakel they are near the market house. Website: <http://www.customsinlandrevenue.gov.vu>

VANUATU NATIONAL PROVIDENT FUND

In Port Vila, the VNPf building is in Rue Pierre Lamy (opposite the Vila Mall) and they also have a branch office in Luganville which is in the VNPf building. Website: www.vnpf.com.vu

REGISTERING A BUSINESS NAME

If you want your business to have a name that tells people what the business does (e.g. *Nambawan Lawyers*) and you want that name to be protected so that no-one else can use it or use a name that is very similar to it, you have to register the name. Business names are registered with the Vanuatu Financial Services Commission (VFSC). It costs VT10,000 to first register the name and then VT5,000 for each renewal – registration of your business name has to be renewed by 30th September each year.

BUSINESS LICENCES

Under recent changes to the law in Vanuatu, it is not necessary to have a business licence unless your **turnover** is more than VT4 million. However, you are still required to register your business with the appropriate licensing authority which is the town council if you live in Port Vila or Luganville or the provincial council if you live outside a municipal area. If you do need to get a business licence, the cost will depend on things such as where your business is located, the type of business you are involved in and the level of your turnover.

Turnover is the total of all sales in a year less any taxes paid or discounts offered

PERMITS

Depending on the plan for your business activities, you may need to have certain permits in place in order for your business to operate legally. Things for which permits may be required include sale of alcohol, preparation and sale of food and importing.



REMEMBER to get some good advice as to what permits are required for your business **BEFORE** you begin operating. If you are found to be running a business without having the required permits you may find yourself paying a penalty or being forced to close the business until all the legal issues are sorted out.

VALUE ADDED TAX (VAT)

If your business has a turnover of more than VT4 million, you are required to register for VAT. In very simple terms, this means that you are required to declare VAT on all sales and you are entitled to claim back VAT that you have paid on goods and services purchased for business purposes. If you need more information about VAT and VAT registration, you should contact the VAT office. They have a number of different brochures you can take away to read and their officers are also available to give you advice and assistance.

EMPLOYMENT, THE MINIMUM WAGE & VNPF

If you employ people to work in your business, you need to make sure that you understand the effect of the *Employment Act*. It explains the rights and responsibilities of employers and employees. For more information and advice, you can contact the Department of Labour. There are additional rules and regulations which apply if you wish to employ someone who is not a ni-Vanuatu citizen – again the Department of Labour can give you guidance on this (together with the Department of Immigration in relation to residency issues).

All employees must be paid the minimum wage or more for work that they do. The minimum wage can change so contact the Department of Labour to make sure you know what it is at any given time. At the moment the minimum wage is VT26,000 per month or VT148 per hour.

Employees who are paid VT3,000 per month or more are required to be members of the Vanuatu National Provident Fund (VNPF). Those employing people who are paid VT3,000 per month or more are required to register as an employer with the VNPF and are then responsible for submitting a return in relation to their employees and paying the right amount of money into the fund where it is held on trust for the VNPF members. The rate of contribution to the VNPF can change from time to time. The contributions work on an “equal match” basis. What this means is that if the rate of contribution is 8% of salary, then 4% is contributed by the employee and the other 4% is contributed by the employer.

It does not cost anything to register as an employer with the VNPF. Returns are usually submitted monthly.

DIFFERENT FORMS OF BUSINESS STRUCTURE

Think about which business structure is the most suitable (and possibly the most affordable) for you.



REMEMBER: Get some good advice before setting up the legal structure of your business so that you understand the different rights and responsibilities that each type of structure creates. Similarly, you should get good advice before changing the legal structure of your business. Here is a brief description of the most common forms of business structure:

<i>Sole trader</i>	As the name suggests this is an individual in business by themselves. If the business fails, the individual is responsible for paying any outstanding debts and can be forced to sell personal assets (such as a house) to do so.
<i>Partnership</i>	A partnership is made up of 2 or more people who own the business jointly. Entering into a partnership gives you access to more resources to put into the business. If the business gets into debt, all partners are liable for those debts.
<i>Limited Company</i>	This is a formal business structure which creates a company which exists in its own right separate from its owners, who are called 'directors'. Directors' personal assets are protected from seizure if a limited company fails and has debts. Limited companies must be registered (renewal of the registration costs VT30,000 each year) and if their turnover is more than VT20 million they are required to submit audited accounts to the VFSC.
<i>Co-operative</i>	A co-operative is a 'not for profit' grouping of individuals or businesses that join together to be in business. A co-operative is run on democratic principles with the board elected by the membership. A co-operative must have a minimum of 7 members and must be registered under the <i>Co-operative Societies Act</i> . A co-operative may give back up to 75% of accumulated profits to members in the form of a dividend or bonus. It costs VT400 to register a co-operative with the Department of ni-Vanuatu Business and Co-operatives. Their head office is at the George Pompidou area in Port Vila (next to VANSOC House) and they also have an office in each provincial centre. Website: www.cooperative.gov.vu

OTHER RESOURCES AVAILABLE

ONLINE RESOURCES

There are lots of resources available on the Internet that you can use to assist you to get your business up and running in the first instance and to develop and grow your business into the future.

BUSINESS ADVISORY & DEVELOPMENT SERVICES

Woman Owned (www.womanowned.com)

WomanOwned was formed in 1998, and since then we have provided the information, tools, networking opportunities and advice that have helped hundreds of thousands of women.

The SME Toolkit (www.smetoolkit.org)

Lots of free tools and resources for people starting out in business including some specially designed for women!

ACCESSING EXPORT & FAIR TRADE MARKETS

Pacific Island Trade & Investment Commission (www.pitic.org.au)

It is our objective to be the leading Pacific Islands organisation that specialises in export and investment facilitation for the benefit of the Pacific Islands people.

ACTIV Association (www.activ.com.vu)

ACTIV Association was officially registered as a charitable association on the 8th February 2008. ACTIV aims to socially, economically and environmentally empower the disadvantaged and marginalized people of Vanuatu through the concept of Fair Trade.

There are a number of organisations within Vanuatu that can provide lots of assistance to women who want to start out in business. See the table below for some pointers as to where to look for support as you start on this journey:

Name of Organisation	What they Offer
Vanuatu Women in Sustainable Development Association (VWSDA)	Networking opportunities, mentoring services, training.
Vanuatu Chamber of Commerce & Industry	Training, Business Development Services
VANWODS	Microfinance, business advisory services, training, networking opportunities
Youth Challenge Vanuatu (YCV)	Training, mentoring
Commercial banks (ANZ, BRED, NBV, Westpac)	Business advisory services, commercial business loans, training & networking opportunities, microfinance options
VNPF	Small business loans available to non-contributing members
Department of ni-Vanuatu Business & Cooperatives	Literature, training opportunities (especially in relation to developing business plans)