Chapter 7

Business start-up

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Learning outcomes

- Identify and discuss the aspects determining the capacity for survival of a new venture
- Discuss the necessity for a market strategy for the entrepreneur when starting a venture
- Discuss how competitors can influence the entrepreneur in his decision to start a venture
- Identify and discuss the resource needs of the entrepreneur and how the size of the prospective enterprise could influence the entrepreneur
Learning outcomes (cont.)

• Identify and discuss the location factors to be considered when starting a venture
• Discuss the factors affecting the entrepreneur’s choice of the form of ownership of the new venture
• Identify and discuss the business support systems available to entrepreneurs
• Identify and discuss the challenges the entrepreneurs face during start-up
Determinants of capacity for survival

- Characteristics, traits and abilities of entrepreneur
- Market and marketing strategy
- Evidence of competitors
- Specific resource needs of venture
- Size of proposed enterprise
- Where venture will be located
- What business form the venture will take
Characteristics, traits and abilities of entrepreneur

• Refer to Chapter 2:
  • Mindset
  • Typical characteristics
Market and market strategy

- Is the product the first of its kind?
- Does similar or same products exist?
- Should demand be stimulated from scratch (new concept)?
- Characteristics of potential customers
Market and market strategy (cont.)

- Extent of potential market and market share
- Growth pattern and potential of market
- Nature and extent of existing and potential competition
- Potential to capture and retain share of market
Presence of competitors

- Existing competitors – or possibility for them to emerge
- Substitute product or service
- Competitor’s share of market
- Pricing policy of competitors
- Effect on suppliers
Resource needs

- **Operating resources**: facilities which allow people to do their jobs
- **Human resources**: direct and indirect resources
- **Financial resources**: to obtain operating and human resources
- **Technology resources**: support production process, IT, recipes and patents
Size of prospective enterprise

• Availability of raw materials, equipment, labour, capital and managerial skills
• Current size of the market
• Optimum level of production
• Minimum volume required (break-even-point)
Geographic location

- Sources of raw materials
- Availability of human resources
- Proximity of and access to market
- Availability of transport, power and water, and capital
- Availability of site and buildings

- Attitude, regulations and tariffs of local authority
- Existing business environment
- Social environment
- Climate
- Central government policy
- Personal preferences
Choosing the best location

1. Establish location factors
2. Assign weighting (1-5) to each factor
3. Calculate possible cost or rating per factor for each location
4. List information in a table
5. Calculate disadvantages connected to each location
6. Decide on the best location
Factors influencing type of ownership

- Legal juristic personality
- Liability of owner
- Extent of direct control by owner
- Ability to acquire capital
- Possibilities to change ownership
- Legal requirements
Sole proprietorship

- Only one individual owner
- Assets belong to owner
- Remains personally liable for debts and claims against business
- May lose personal possessions if the business fails
- Has full control and authority over activities
Sole proprietorship (cont.)

- Owner is responsible for all management decisions
- Limited possibilities to acquire capital
- Few problems with transfer of ownership – can sell at any time.
- No formalities or legal requirements
- Individual simply decides to start a business and run it in his own name
- Special permits or licences must be obtained
Sole proprietorship (cont.)

- Profit belongs to owner and pays income tax
- Business does not pay income tax
- Owner is the legal entity and not the business
- Business cease to exist when owner dies
Sole proprietorship (cont.)

Need to register with following institutions:

• South African Revenue Service (SARS) – for tax matters
• Department of Labour (DoL) – for staff matters
• Local municipality – matters about business premises
• Companies and Intellectual Property Commission (CIPC) – registration of business name, trade mark, patents and other intellectual property matters
Partnership

• Where 2 or more people run a business
• Maximum of 20 members
• Partnership no legal personality
• Partners sign contracts in their names
• Partners are liable for the debts of the partnership
• Partners have joint control over business and assets
Partnership (cont.)

- Easier to acquire capital than sole proprietor
- When a new partner joins or retires the partnership automatically dissolves
- Established by partnership agreement
- Agreement must make provision for every partner’s contribution
- Contribution can take form of money, assets or services
Partnership (cont.)

- Must be stipulated that each partner must share in profits or losses
- Partners may be individuals or legal persons such as companies
- Profit-sharing ratio between partners is usually regulated in the partnership agreement
- Partners taxed on profits not partnership
- Insolvency of partnership can result in the sequestration of the private estates of the partners
- Partnership dissolves at death of a partner or when a new partner joins
Partnership (cont.)

Two types of partnership:

• Ordinary

• Extraordinary – two types
  – Anonymous
  – Commanditaire/sleeping partner
New Companies Act identifies two types:

- **For-profit company**: incorporated for the purpose of financial gain

- **Non-profit company**: incorporated for public benefit and income is not distributable to incorporators/members or persons related to them
Types of profit companies

- **State owned**: owned by state/municipality with SOC Ltd as part of name
- **Private company**: not state owned and
- **Personal liability company**
- **Public company**
<table>
<thead>
<tr>
<th></th>
<th>State owned</th>
<th>Private company</th>
<th>Personal liability company</th>
<th>Public company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shareholders</strong></td>
<td>State or municipality</td>
<td>1 – 50 members</td>
<td>1 – 50 members</td>
<td>No limit</td>
</tr>
<tr>
<td><strong>Directors</strong></td>
<td>Not indicated</td>
<td>At least one</td>
<td>At least one</td>
<td>At least three</td>
</tr>
<tr>
<td><strong>Extended accountability requirements</strong></td>
<td>Required to comply</td>
<td>Not required to comply</td>
<td>Not required to comply</td>
<td>Required to comply</td>
</tr>
<tr>
<td><strong>Shares</strong></td>
<td>Not offered to public</td>
<td>At least 7 shareholders</td>
<td>Not offered to public</td>
<td>Offered to public – annual general meetings</td>
</tr>
<tr>
<td><strong>Transferability of shares</strong></td>
<td>None</td>
<td>Limited transferability</td>
<td>Limited transferability</td>
<td>Freely transferable</td>
</tr>
<tr>
<td><strong>Name of company</strong></td>
<td>Ends with SOC Ltd</td>
<td>Must end with Pty (Ltd)</td>
<td>Must end with Inc.</td>
<td>Ends with Ltd or limited</td>
</tr>
<tr>
<td><strong>Liability</strong></td>
<td>To state</td>
<td>Company only</td>
<td>Directors jointly &amp; severally liable with the company</td>
<td>Company only</td>
</tr>
<tr>
<td><strong>Sharing of information</strong></td>
<td>Not to public</td>
<td>Not to public</td>
<td>Not to public</td>
<td>Must make it known to public</td>
</tr>
</tbody>
</table>
Company (cont.)

- Company is a legal entity
- Assets and liabilities divorced from shareholder
- Personal assets of shareholders not involved in claims against company
- Liability of shareholder limited to share capital
Company (cont.)

- Shares of public company can be sold to a third party without consent of other shareholders or company
- Company does not dissolve at death of a shareholder or directors (perpetual succession)
- Control and authority rest with board of directors and general meeting of members
Other forms of ownership

- Co-operatives: established to achieve certain economic advantages for members through joint action.
- Trusts: offers members limited liability and reduced costs while looking to make a profit and further objectives of trustees. May not exceed 20 members.
Business industries

- The total economy consists of industrial sectors that produce products and services and have been grouped together in the Standard Industry Classification (SIC).
- An industry consists of establishments engaged in the same or a closely related kind of economic activity based mainly on the principal class of goods produced or services rendered.
Industry

The term "industry" cover all economic activity from the primary industries of agriculture, forestry, fishing and mining to the rendering of social, recreational, cultural and personal services.
Industry sectors

- Manufacturing
- Service
- Retail
- IT Industry
- Internet / e-business
Manufacturing industry

- Agri-processing
- Automotive
- Chemicals
- ICT and electronics
- Metals
- Textiles, clothing and footwear
Services industry

- Advertising including print, radio, television, outdoor advertising and the Internet.
- Professional bodies
- Marketing and market research organizations
- The South African legal system
- Financial and insurance services
- Accounting service
- Hospitality and tourism
- Consulting, office administration, hairdressing, cleaning
Retail

- A retailer is defined as an enterprise deriving more than 50 per cent of its turnover from sales of goods to the general public for household use.
- The retail industry is divided into four size groups namely large and medium enterprises and small and very small enterprises.
IT industry

- Telecommunications services
- Telecommunication equipment manufacture
- Computer hardware manufacture
- Packaged software development
- IT professional services (consulting)
Internet or e-business industry

• Growth in e-commerce in South Africa is fuelled by the realisation that online procurement and supply-chain management can trim costs and improve customer relationships

• Financial institutions facilitate e-business transactions
Business support systems

- Ideas and information usually come from different sources.
- By obtaining contributions from different sources, the entrepreneur can improve his/her decision-making abilities.
- After the entrepreneur has made use of these, he/she will be more likely to use such sources in future with positive effect.
- The entrepreneur will learn that he/she does not have all the right answers - sources of support can function as a social and institutional safety net for entrepreneurs.
Sources of support

- Personal sources
- Institutional sources
- Professional sources
Personal sources of support

- Personal knowledge and skills
- Friends and relatives
- Other entrepreneurs
- Suppliers
- Employees
- Customers
Institutional sources of support
Department of Trade and Industry

- Incentive Administration Business Unit
  - SMEDP in manufacturing and tourism
  - Skills support programme
  - Competitiveness fund
  - Black Business Supplier Development Programme
Institutional sources of support
Department of Trade and Industry (cont.)

– Black Business Supplier Development Programme
  • New Incentive Development Unit
    o Review and development of incentives
  • Business Development and Aftercare Business Unit
    o Accessibility of incentive offerings of DTI
Institutional sources of support: Government-related institutions

- Industrial Development Corporation (IDC)
- Small Enterprise Finance Agency (SEFA)
- Khula Finance
- National Youth Development Agency (NYDA)
- National Manufacturing Advisory Centre Coordinating Body (NAMAC)
- National Empowerment Fund (NEF)
- National Enterprise Promotion Agency (Ntsika)
- Small Enterprise Development Agency (Seda)
- Companies and Intellectual Property Commission (CIPC)
Institutional sources of support associations

- Black Management Forum (BMF)
- Business Unity South Africa (BUSA)
- Minara Chamber of Commerce
- National African Federated Chamber of Commerce (NAFCOC)
- Afrikanse Handels Instituut (AHI)
- SA Chamber of Commerce (SACOB)
- Foundation for African Business and Consumer Services (FABCOS)
- Chamber of Commerce and Industry in SA (CHAMSA)
Other institutional sources of support

• Small Claims Court

• Educational Institutions
  – Higher Education
  – Further Education and Training
Professional sources of support

• Consultants
• Lawyers
• Accountants
• Agents
• Franchisors
• Franchising Association of SA (FASA)
Challenges during start-up

• Might not enjoy it
• Survival is difficult
• Not enough knowledge about the business
• Misuse of funds
• Losing control of work and personal time management

• Inability to manage people
• Growth creates new challenges
• Lack of customer focus
• Poor controls