



Hamish Edwards

# Running a business calls for the right stuff

**S**TARTING your own business requires special skills and resources. With our own clients, we have noticed five "must-have" qualities that have contributed to their success:

- A commitment to hard work and sacrifice.
- Enthusiasm, tenacity and an appropriate level of self-confidence.
- A product, skill or service that is marketable.
- Managerial, administration and marketing skills.
- Adequate personal financial resources.

Some people contemplate the leap into small business to simply "buy a job". This is the wrong reason to start or buy your own business.

While being your own boss is rewarding, some of our clients forget that the things you take for granted as an employee will disappear: job security, steady hours, guaranteed income, holiday and sick pay, and long-service leave.

We encourage clients to consider New Zealand business start-up statistics. About 10 per cent of small businesses fail in their first year. Close to 70 per cent fail within their first five years.

There are many factors that can cause businesses to fail, but among the most common are poor management, sloppy records, too much or too little stock, failure to plan, misuse of time, neglecting marketing and general incompetence.

Too often we hear failures blamed on business climate, financial costs, demand slumps and regulations — not the five "must-haves".

There are many warning signs for failure. When we notice these signs we work with our clients to address them and help them ensure their start-ups are successful:

- Insufficient capital.
- Partnership problems.
- High gearing.
- Incorrect pricing policies.
- Out-of-date, poorly directed or ineffective marketing.

Cashflow and profit are also important. Without proper and accurate cashflow projections you are unable to identify future cash requirements and therefore lack vital information about the financial direction of your business.

But projecting cashflow alone is not enough. Your business must return a profit. The long-term trends for both cashflow and profit need to be positive. Ideally, your business should have a budget showing expected future income, expense levels and the minimum expected return to you.

If you are considering managing your own business it is vital to know the point at which it breaks even. We advise our clients that this is the point at which the gross profit (revenue less direct costs) equals total fixed costs.

Any additional turnover will result in a profit equal to the gross profit on this turnover, and any reduction in turnover will result in a loss. Knowing these revenue levels and monitoring them regularly will equip you to know from month to month how the business is performing.

The key thing that we advise all our clients is that business success comes down to a combination of skills. It takes a good mix of personal, managerial and financial ability to make a go of your own business.

*Hamish Edwards is a chartered accountant and chief executive of Edwards Accounting and a contributor to the Biz Centre. For more information on business development services for small- to medium-sized businesses see [www.thebizcentre.co.nz](http://www.thebizcentre.co.nz).*