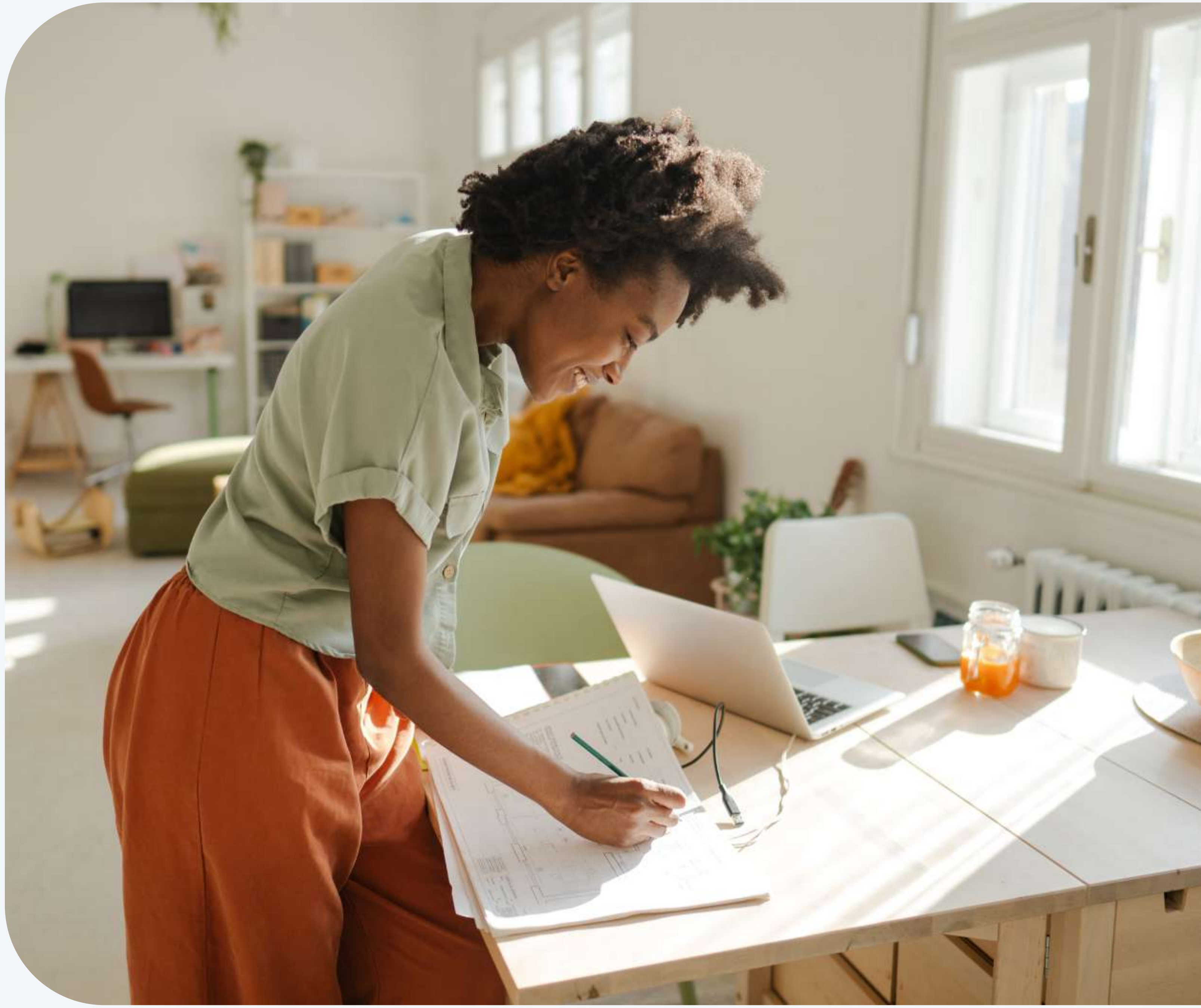
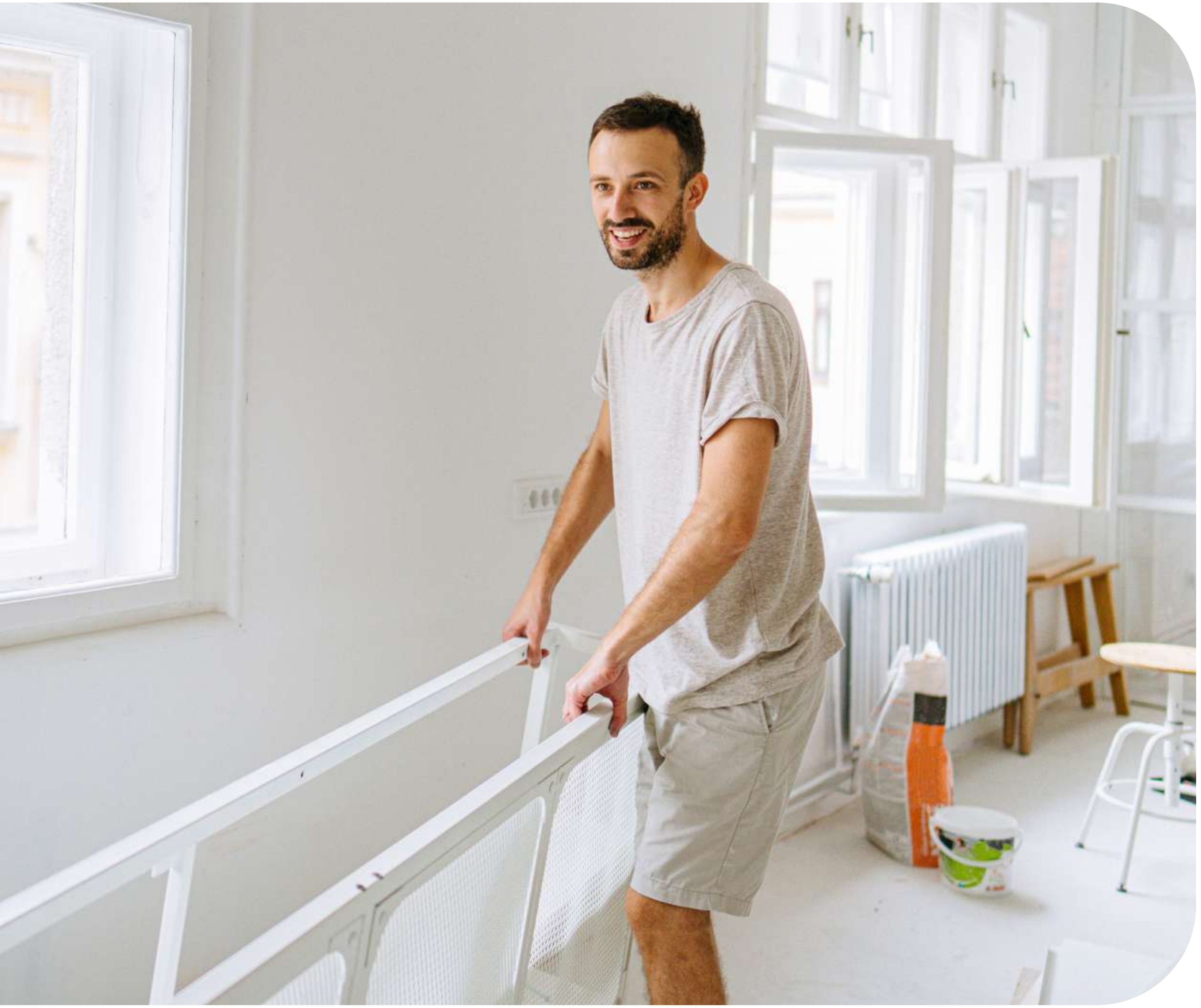
Starting a business





Starting your own business is simultaneously one of the most rewarding and demanding things you can undertake. When you first start out in the business world, there’s a lot of assumed knowledge you’ll need to absorb quickly. Let’s get into it.

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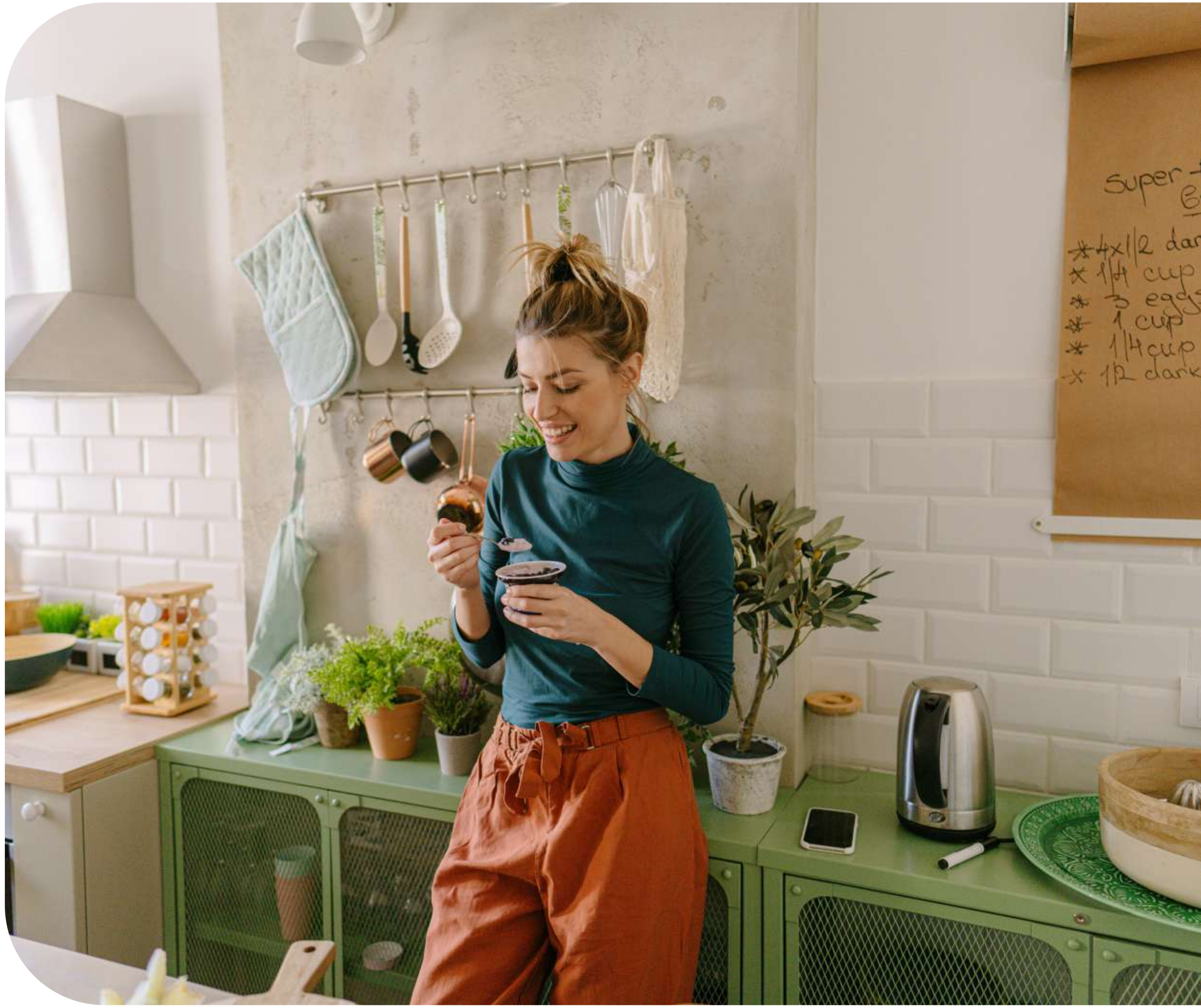
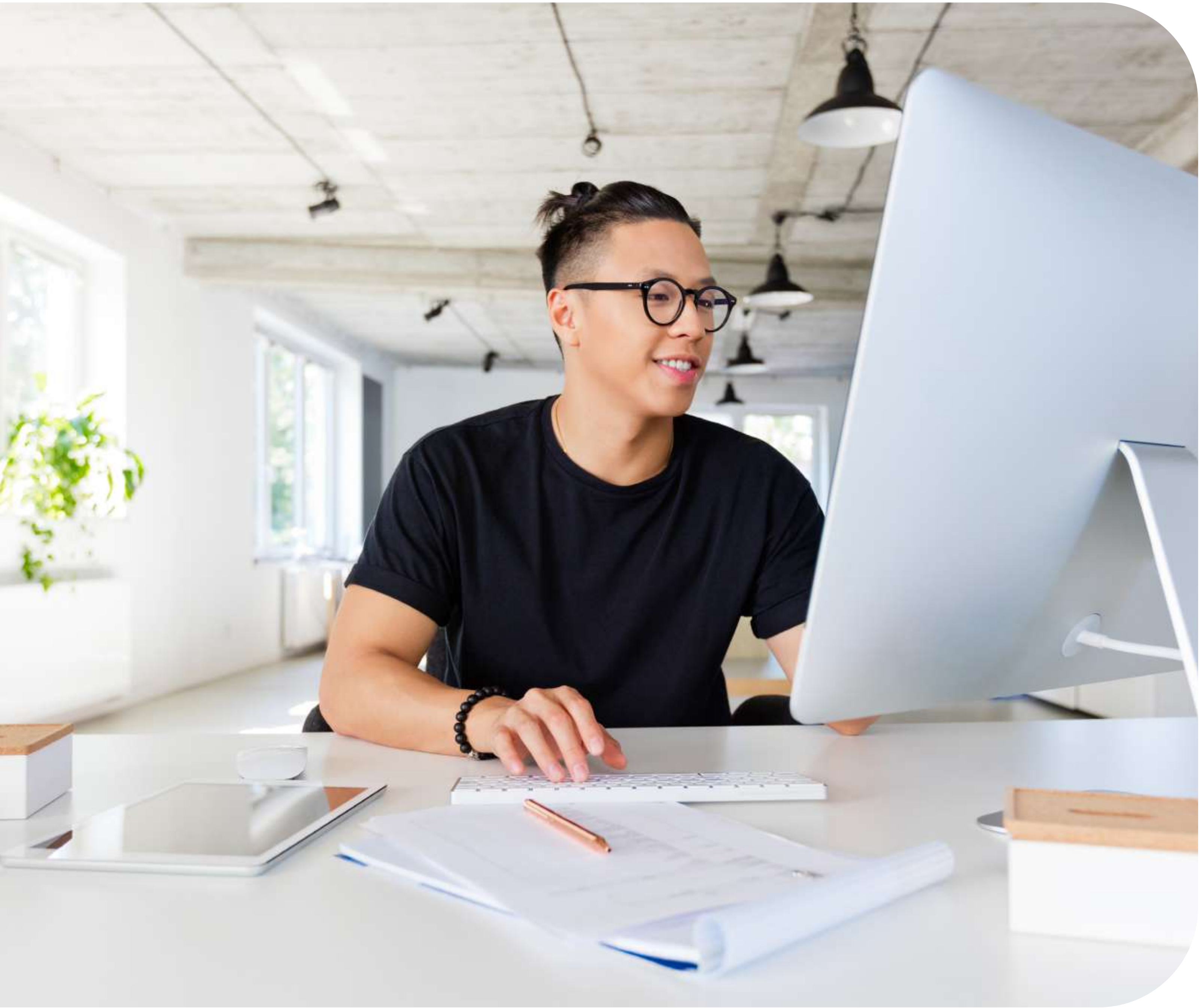




How to get an ABN?

First of all, if you're setting up a new business, you'll need to set yourself up with an Australian business number (ABN).

What is an ABN?

An ABN, or Australian business number, is a unique 11-digit identifier ascribed to all Australian businesses.

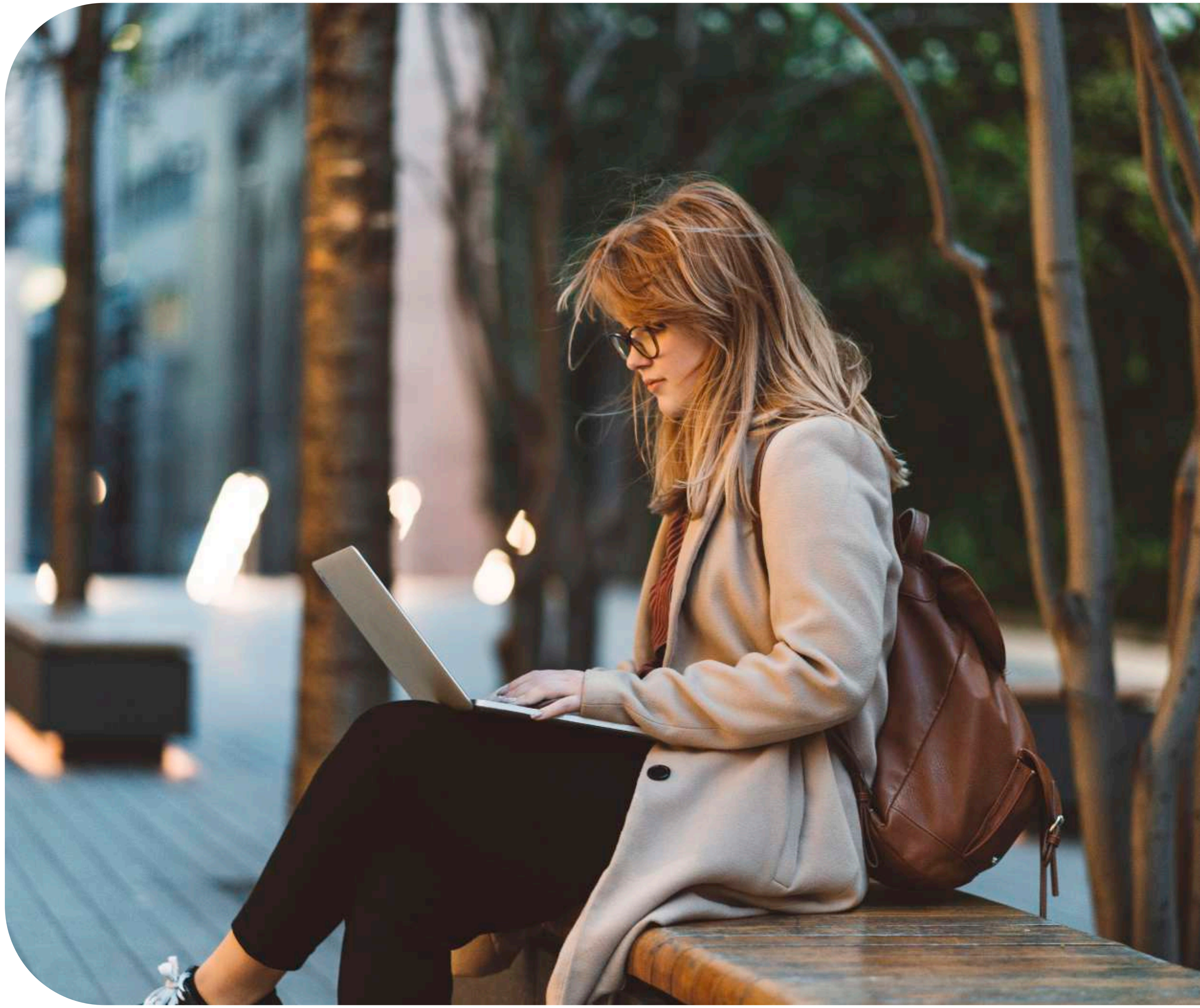
- It's a necessity for all businesses operating in Australia to register for an ABN.
- An ABN is used to process government and trade interactions and acts as a form of business ID.

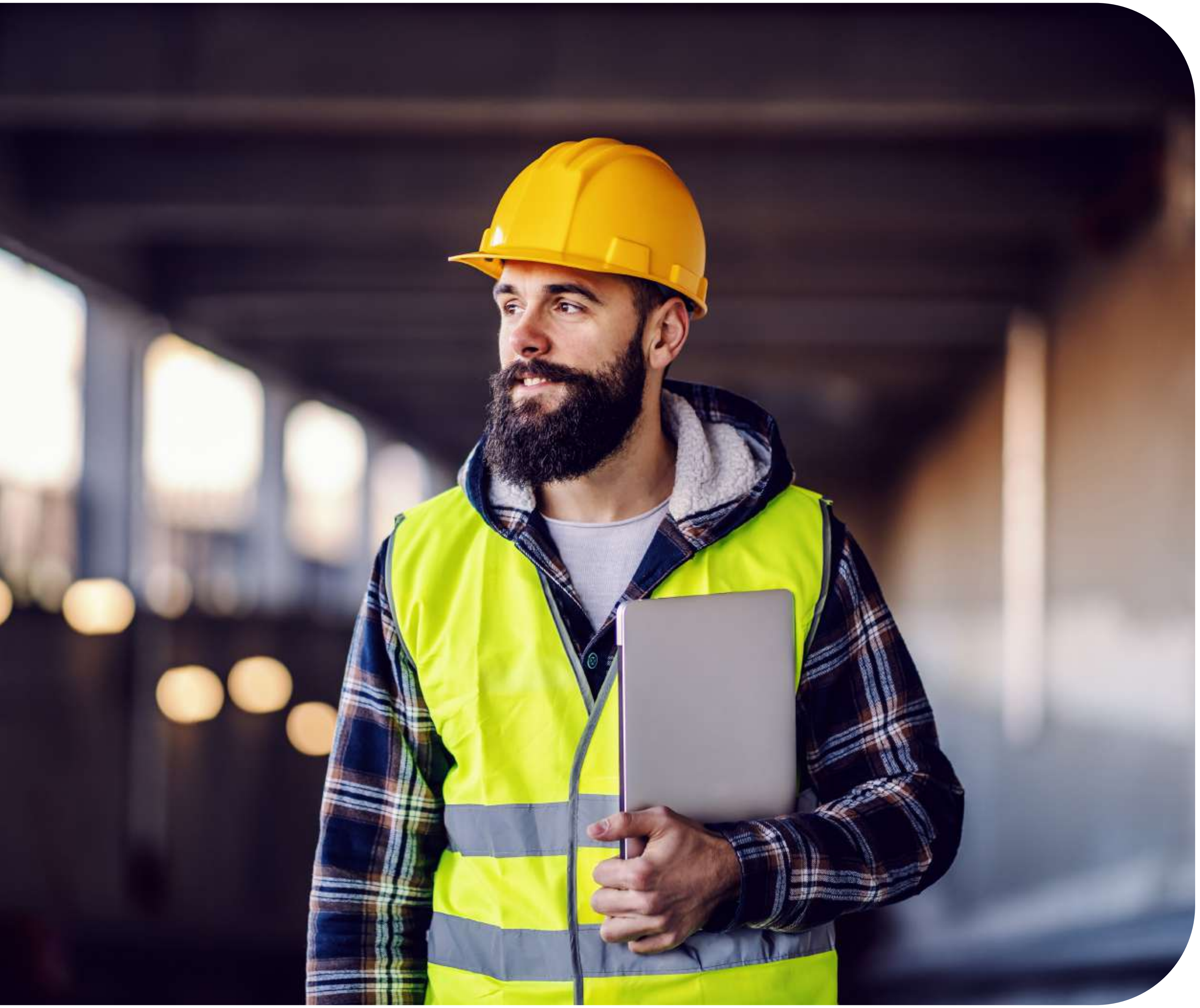
How to set up an ABN?

To set up an ABN, you simply need to register your details online through the Australian Business Register.

To register for an ABN online, please visit the **ABN Registration Page**.

*Tip: it helps to set up a **myGov** account to assist in the ABN application process and simplify all Australian Business Register and associated Australian Government communication and activity.*



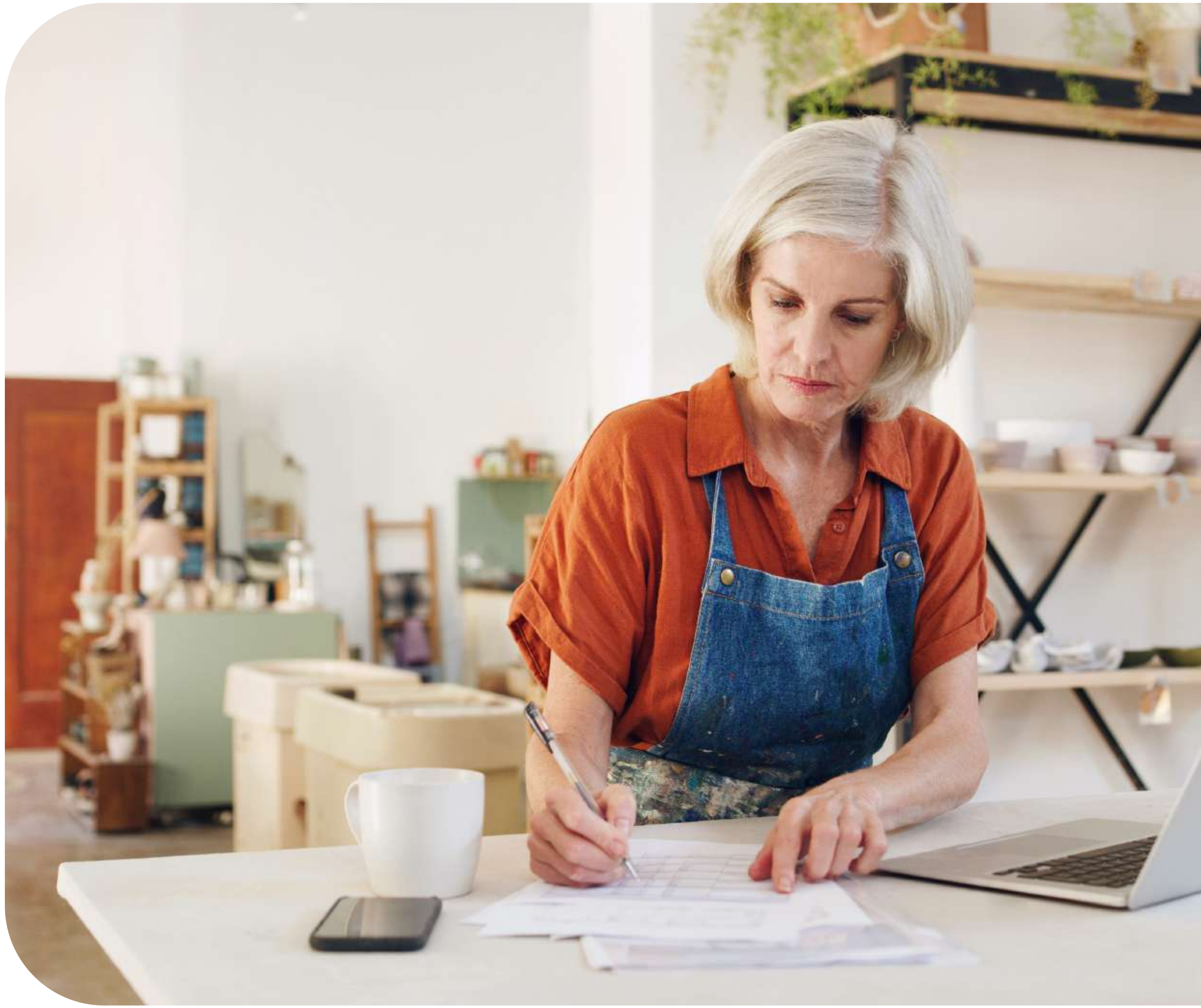


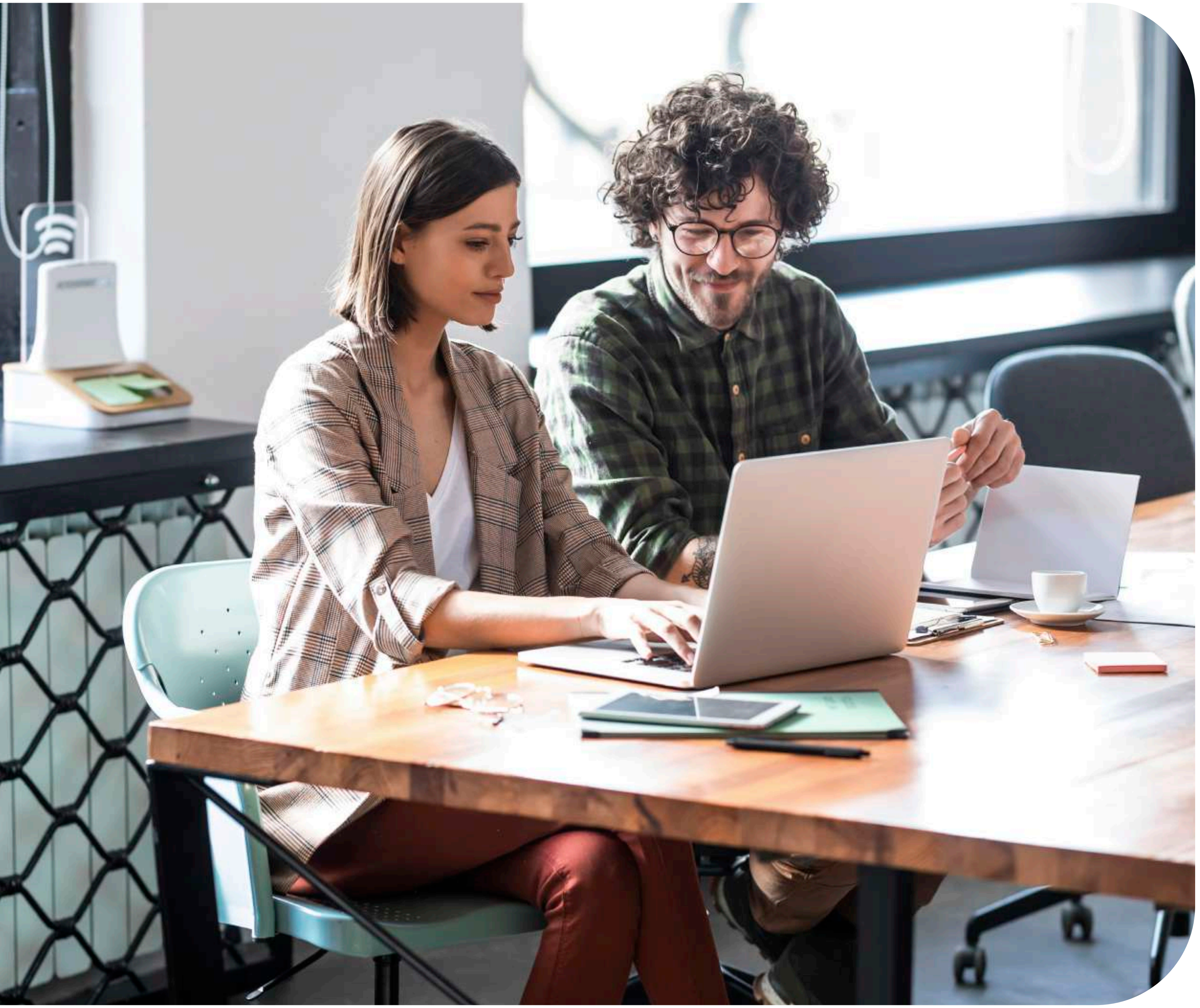
Types of business structures

When you’re starting a small business in Australia, you’ll need to decide which of the four main types of business structures you’ll operate under.

Your chosen business structure will affect:

- how much tax you must pay
- ongoing reporting requirements
- business set up costs
- the way your business operates
- legal liability





What are the different types of business structures in Australia?

The types of business structures in Australia are:

- sole trader
- partnership
- company
- trust business

Choosing the right business structure is one of most important decisions to make as a new small business owner.

SOLE TRADER

A sole trader is the simplest type of business, formed when one individual owns the business for which they're legally responsible.

A sole trader will usually make all the decisions about running the business and are able to employ people..

Tax liability: You pay tax as an individual on any income you earn from a sole trader business. You're also required to pay GST and submit a business activity statement if your turnover is more than $75,000 a year.

PARTNERSHIP

Partnerships are formed when two or more individuals become co-owners of a business.

A partnership business allows individuals to pool their assets and skills to increase their chances of success. A partnership is also able to hire employees to help them run the business.

Tax liability: Partners pay tax as an individual with income from the business divided between partners. You're also required to pay GST and submit a business activity statement if your turnover is more than $75,000 a year.

COMPANY

A company is formed when an owner registers their business with the Australian Securities and Investments Commission (ASIC). The business then becomes a separate legal entity from the original business owner.

This means the company itself can own assets and enter into contracts directly with third parties.

Tax liability: Companies are subject to company tax rates which are different than an individual tax rates. The current company tax rate is either 27.5% or 30% depending on the criteria you meet. You're also required to pay GST if your turnover is more than $75,000 a year.

TRUST

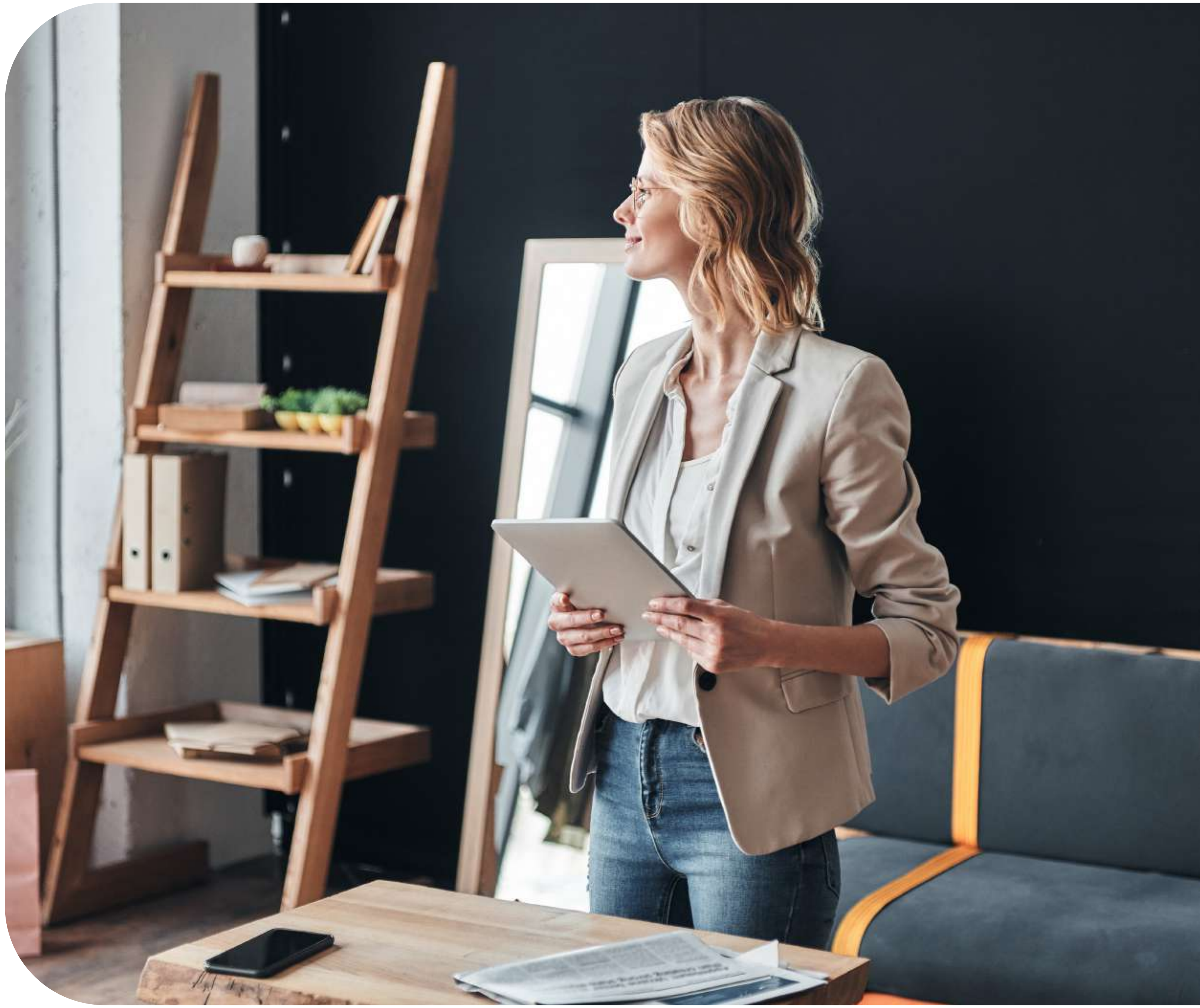
A ‘trust’ is a type of business which legally holds property or income for the benefit of others.

The trustee can be either an individual or a company and is responsible for any debts and liabilities.

Trusts are commonly used to manage, protect, and pass on family assets including shares, personal property, and the family’s business from one generation to another.

A trust involves a trustee owning and operating the business’s assets and distributing the business’s income to the beneficiaries included in the trust deed.

Tax liability: The trustee distributes the business profits to the beneficiaries who then pay tax on the income received under their marginal individual tax rates.



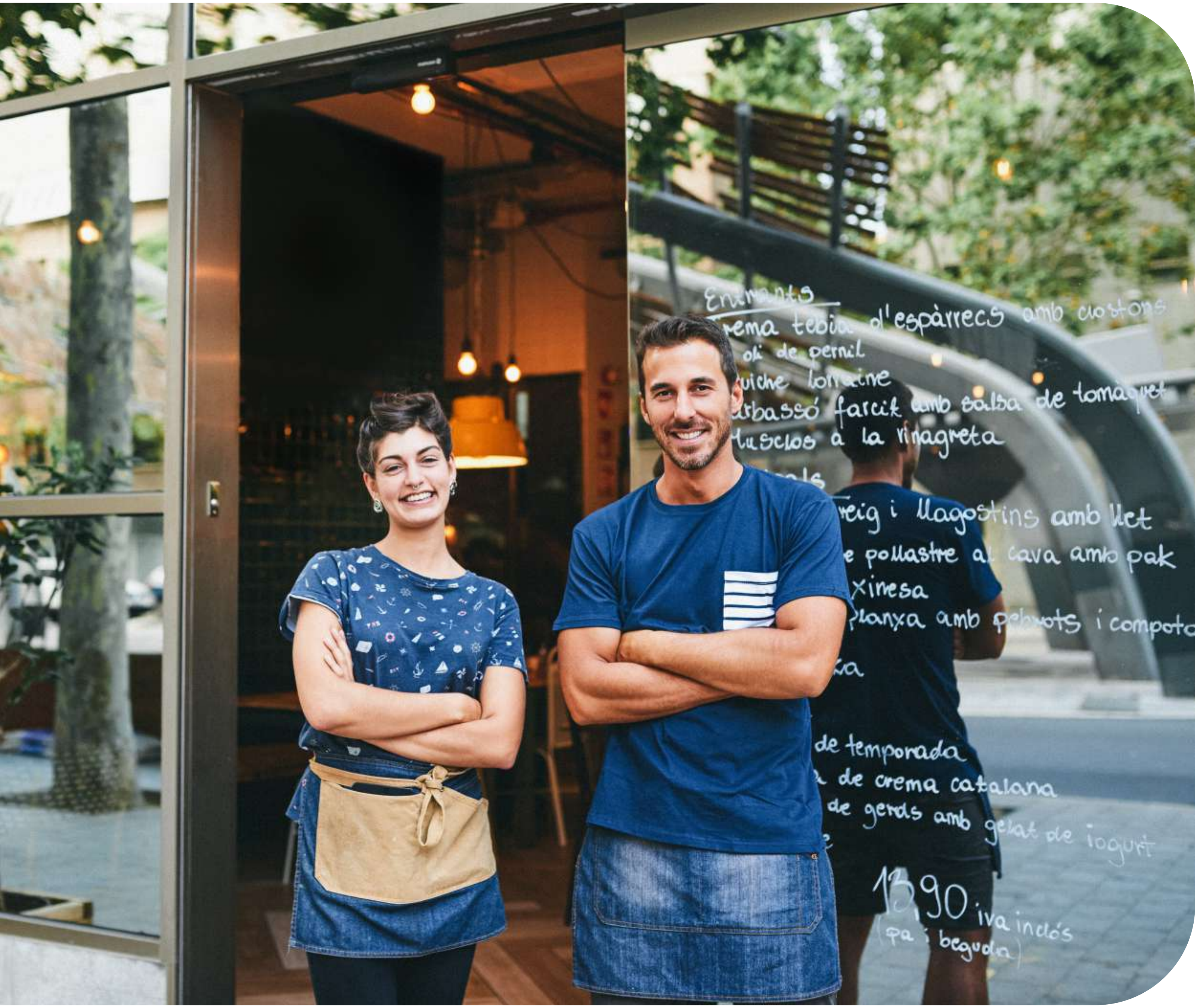
How to choose a business structure?

Consider the following table when deciding which type of business structure to create.

	Sole trader	Partnership	Company	Trust
Is the structure hard to set up?	No	No	Yes	Yes
Is it expensive to set-up?	No	No	Yes	Yes
Do I have complete control?	Yes	No	No	No
Are there complex reporting requirements?	No	No	Yes	Yes
Are my assets under threat if my business goes into debt?	Yes	Yes	No	No
Do I receive full profits made from the business?	Yes	No	No	No
Can I employ staff?	Yes	Yes	Yes	Yes
Can I change the legal structure easily?	Yes	Yes	No	No
Is it easy to raise capital?	No	Yes	Yes	Yes
Is it easy to dissolve or exit?	Yes	Yes	Yes	No

Still unsure? This Australian Government tool can help you work out the type of business structure that will best suit your needs.

To learn about the advantages and disadvantages of each of type of business structure you can read more here.



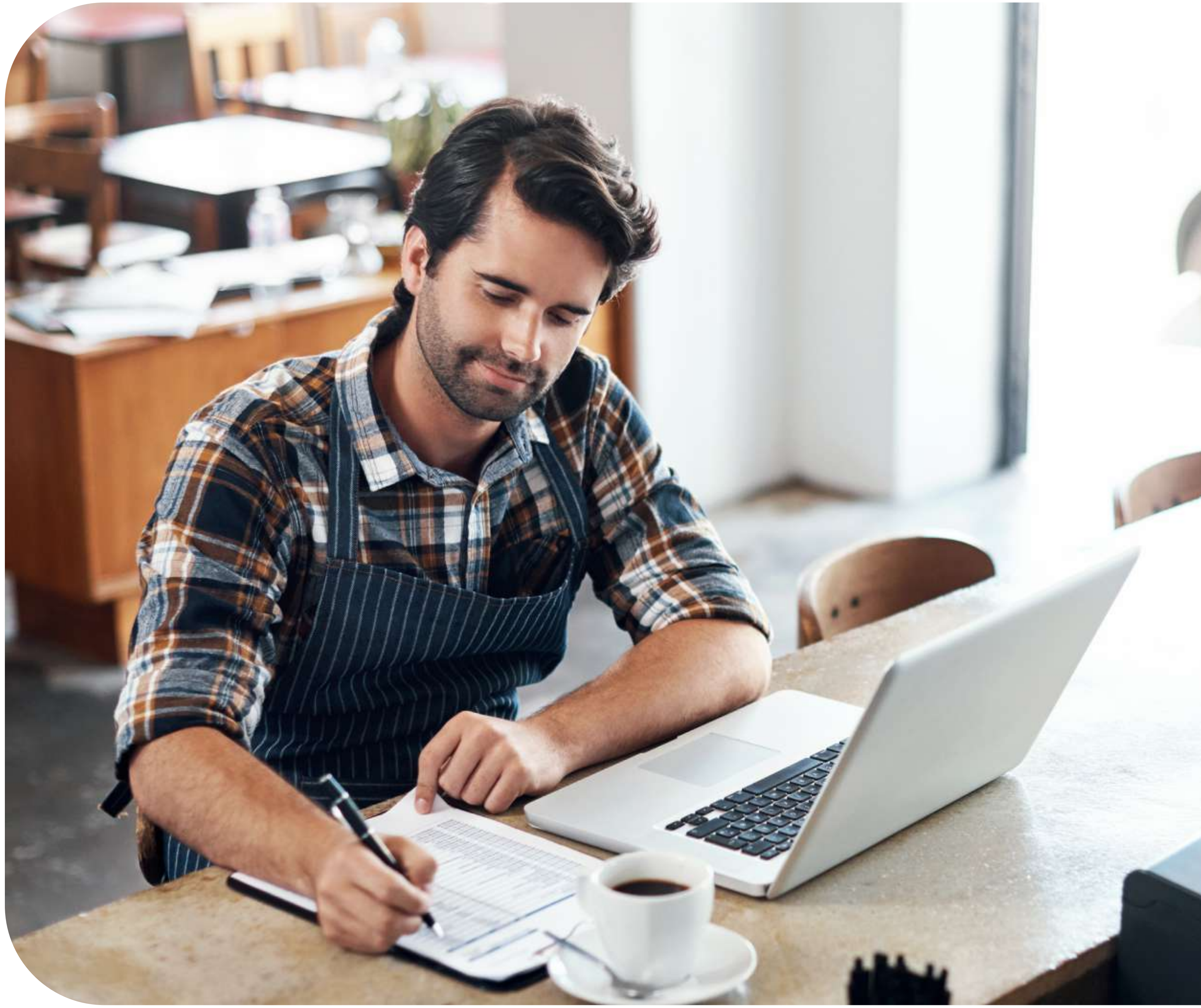
How to Write a Business Plan

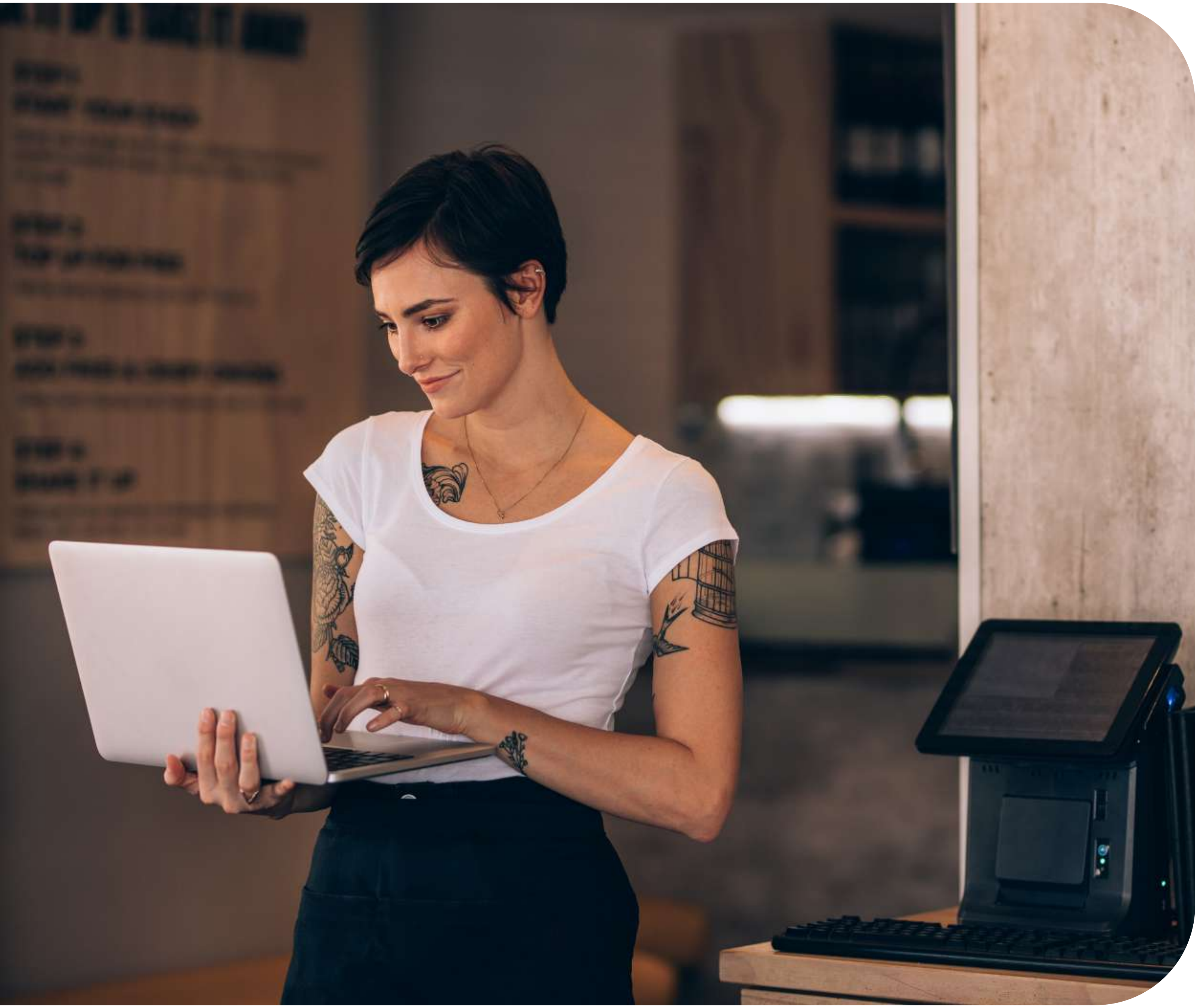
A business plan is a formal document containing a business's goals and objectives for the future.

A small business plan also provides an overview of the day-to-day aspects of your small business. It will typically include:

- business description
- executive summary
- market research
- sales and marketing strategies
- competitor analysis
- financial strategy and forecasts
- information for potential investors
- much more.

Writing a business plan gives your business the best chance of financial success. It will help you to flesh out your business proposal, outline key features of your business processes and gives an action plan of the specific goals you wish to achieve over a certain period of time.





Research, research, research

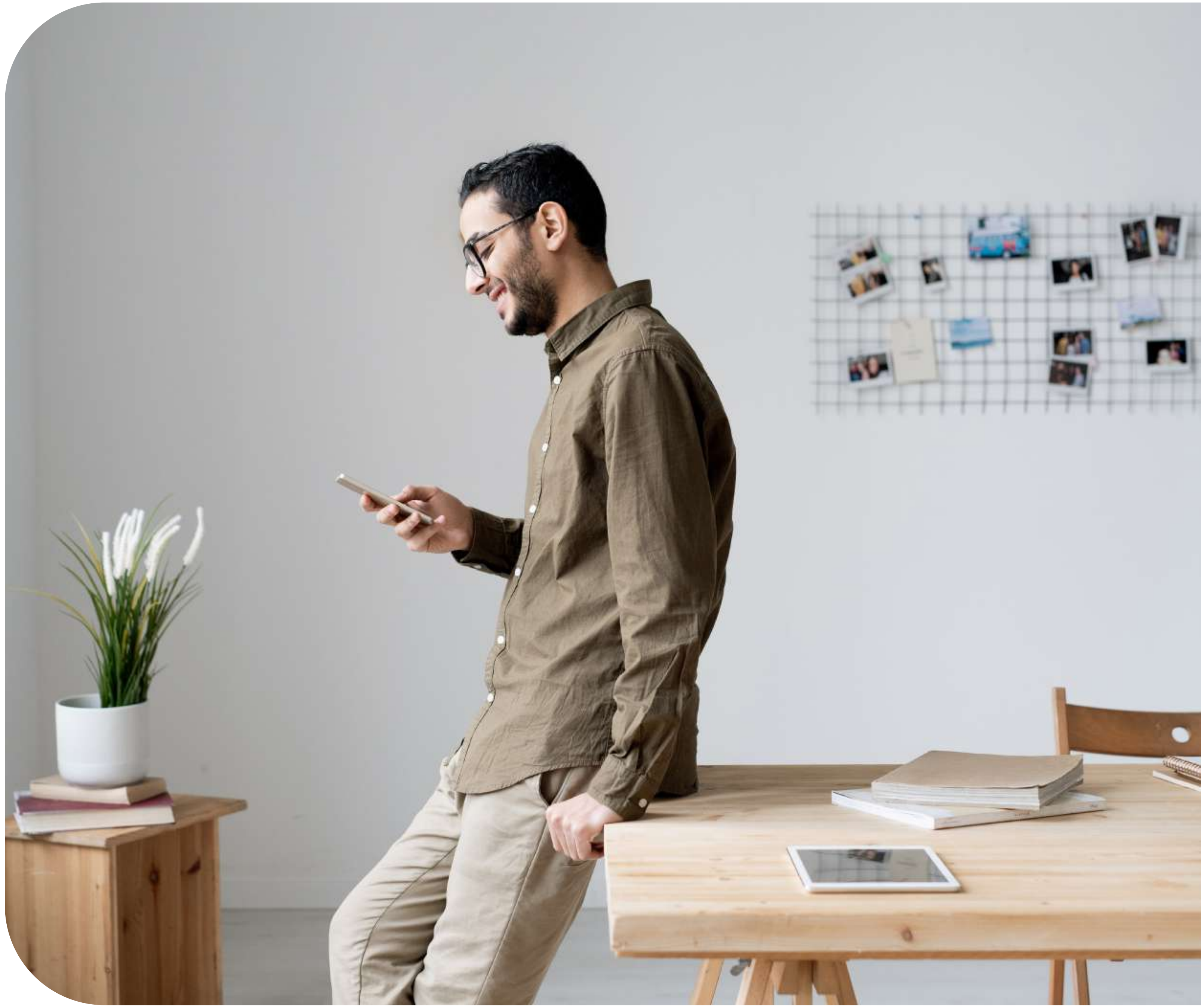
Before you even consider starting a business you should have a good understanding of the market you plan on entering. Doing your research can mean the difference between success and failure, and it doesn't have to cost you anything. It's also the best way to start a business plan. Networking, online research and informal focus groups are often all you need. Here's what to ask yourself before you take the plunge:

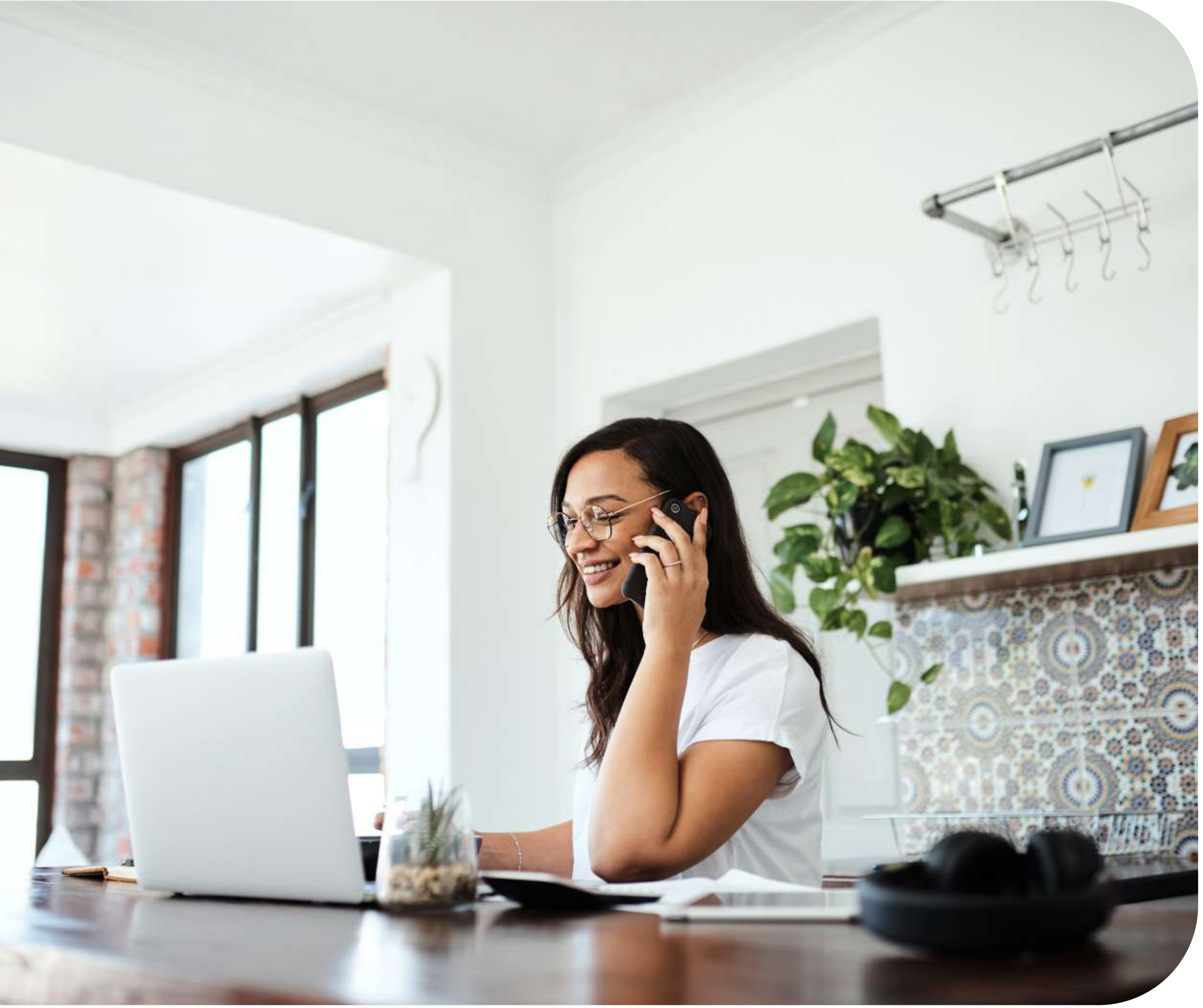
- What is the market like, including its size and potential for growth?
- Is there demand for your product?
- Who is your ideal customer in terms of age, location, and other demographics?
- Do you understand your competitors and how your product is different?
- What are your estimated start-up costs?
- What marketing strategy will you implement?

Keep it short and snappy

The more succinct your plan is, the better. Here's our tips for how to create a business plan that is concise:

- Enhance the readability of your document by including plenty of white space and consistent formatting.
- Include visuals and charts to show locations, products, services, and help.
- Add summaries for each key section to help your reader identify key points.
- Add any technical information or research data as an appendix.





Be professional & proof-read

A well-written and presented business plan gives the reader an idea of the way you run your business.

Here’s our tips for creating the best possible plan:

- Proofread your business plan for clarity, spelling, professional formatting and grammatical mistakes.
- Always start with an executive summary that includes the key points and purpose of the plan.
- Get a friend, mentor, or a professional business adviser’s advice on how to improve it.

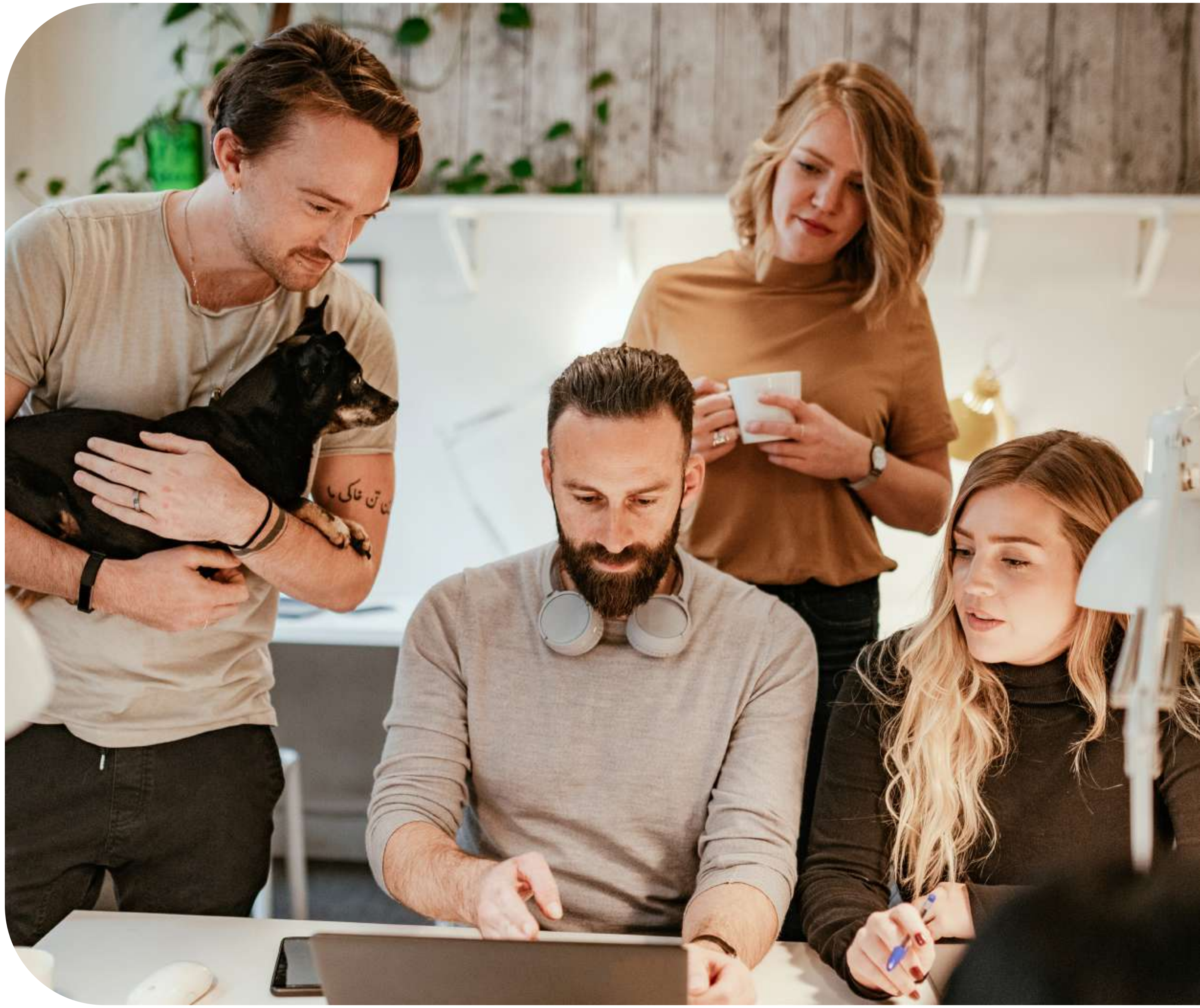
Tailor your business plan to your audience

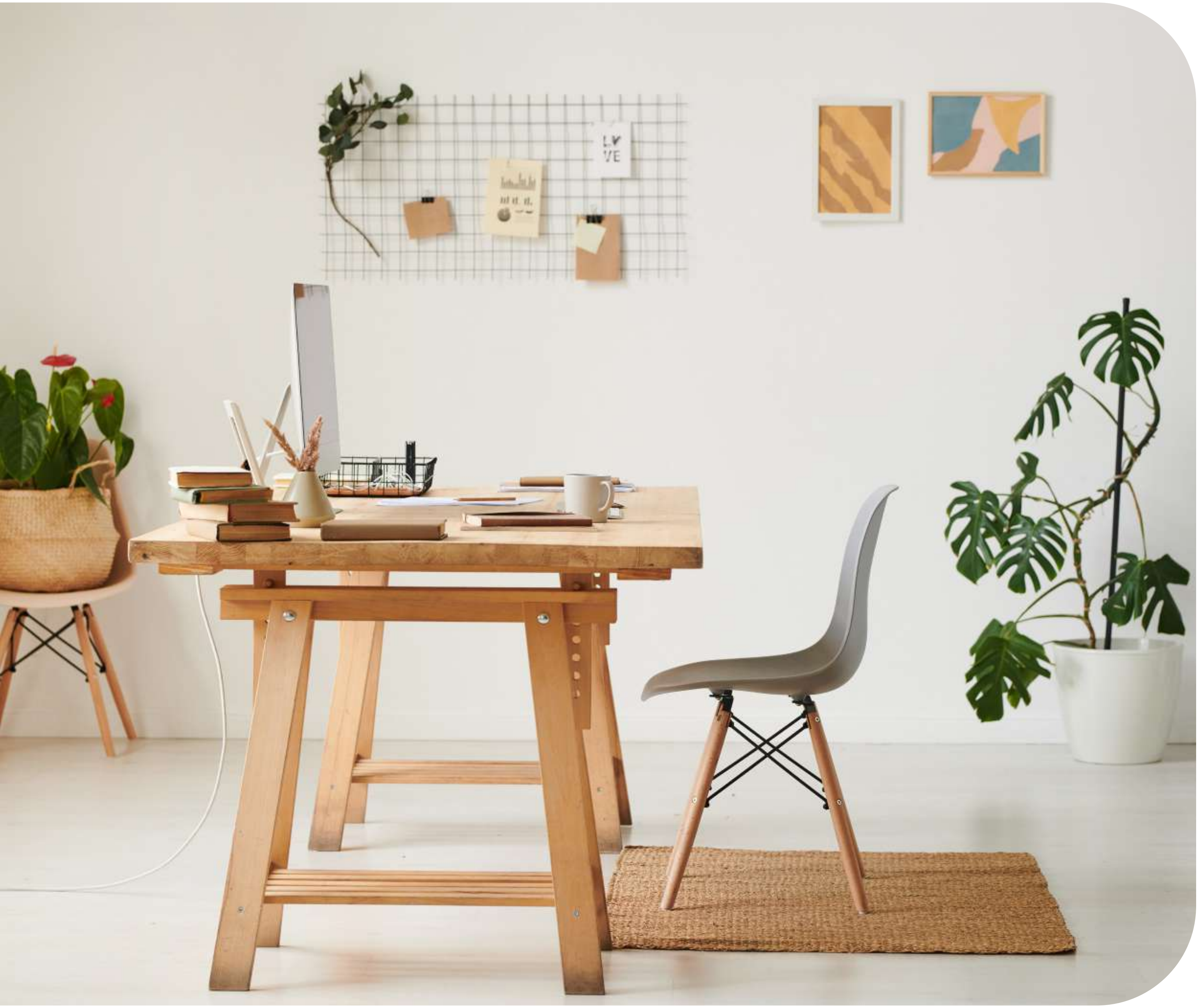
Make sure to consider who will be reading your plan and the objective you want to achieve when writing it.

Different stakeholders value different aspects of your business so create variations of your business plan for different purposes.

Some examples:

- Banks and lenders are more interested in the financial section, so make sure your balance sheets and cash-flow statements are solid.
- If you're looking for a potential business partner or investor, highlight your management experience, overall business concept and strategy.
- A manager in your business may use the plan to remind themselves of business objectives, goals, or the marketing plan.





Don’t let it gather dust

Your business, competition, and the overall market you operate in is likely to change over time, so you should review your business plan regularly to make sure you’re still on track.

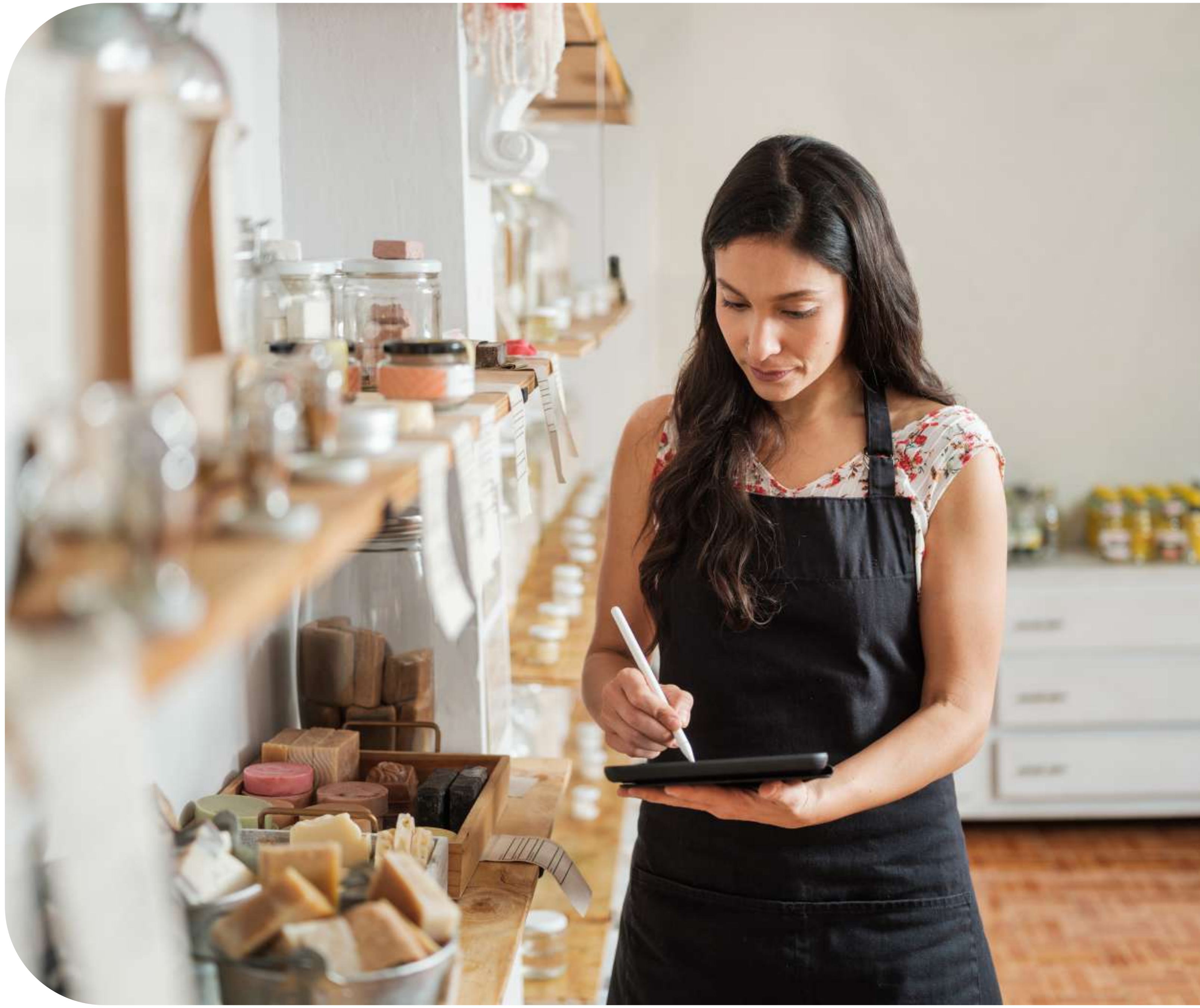
- Make a habit to review your business plan at least once a year, if not more.
- It’s a living document, should be easy to access and refer to whenever you need.
- when you do update it, make sure you keep the old copy. It’s useful for evaluating progress and makes it easier to find information.

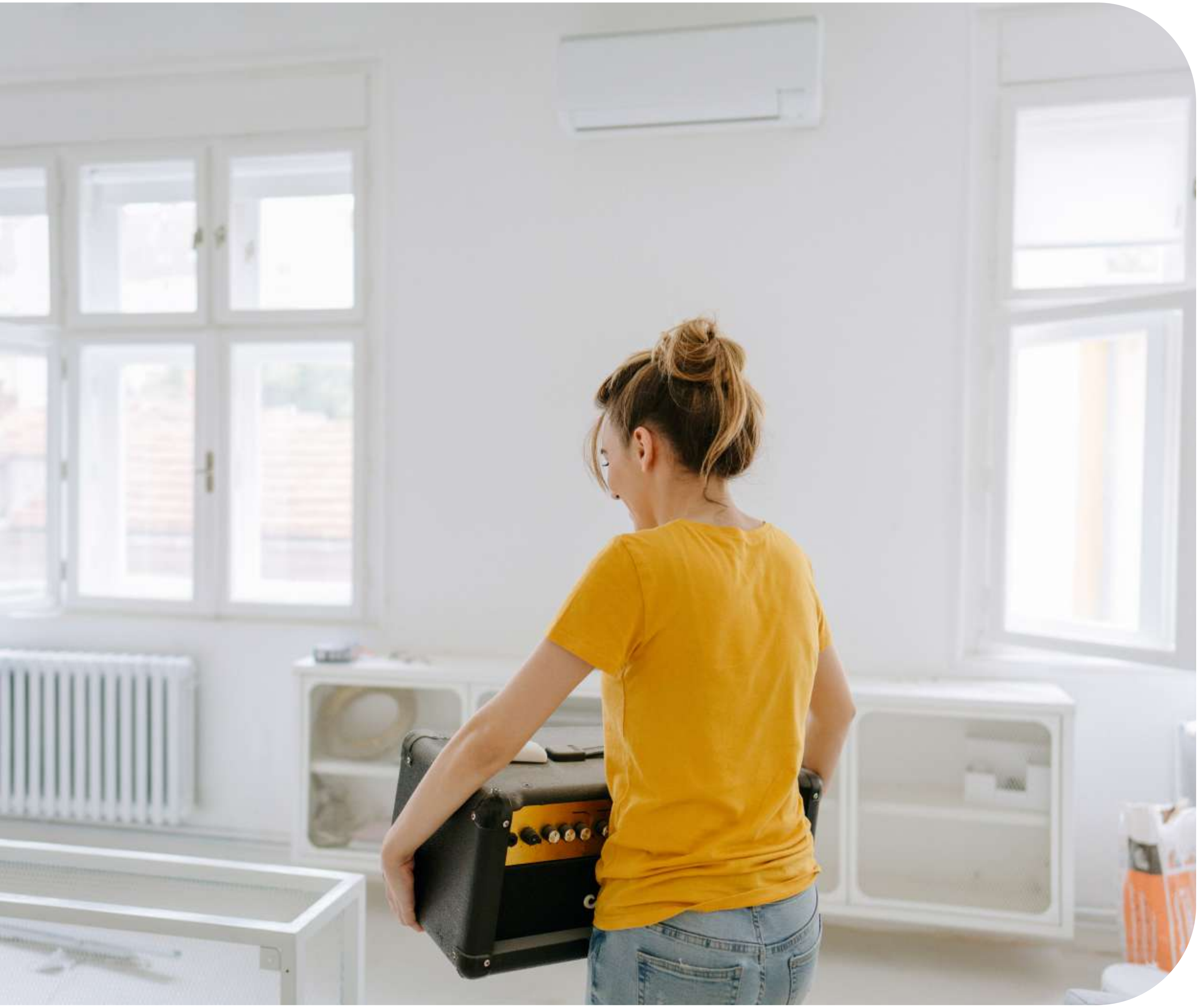
Small business plan template

If you’re ready to get moving on a small business plan and are looking for a starting point, we’ve created a free business plan template you can use for your own business.

Budgeting and forecasting for small businesses

Budgeting and forecasting for small businesses sits at the very heart of profitability and success.





If forecasting and budgeting for small businesses is inadequate, the ability to turn a profit, grow a business, get finance and endure into the future could be severely compromised.

At the bare minimum, budgeting controls your spending, keeps a record of your expenses and maps the health of your cashflow and savings.

A budget also helps you:

- plan your financial decisions
- predict ups and downs in cashflow which will alter your behaviour
- insulate yourself against unexpected purchases
- manage debt
- provide evidence for business finance applications
- galvanise your future financial health with confidence.

What is a budget and how does budgeting work?

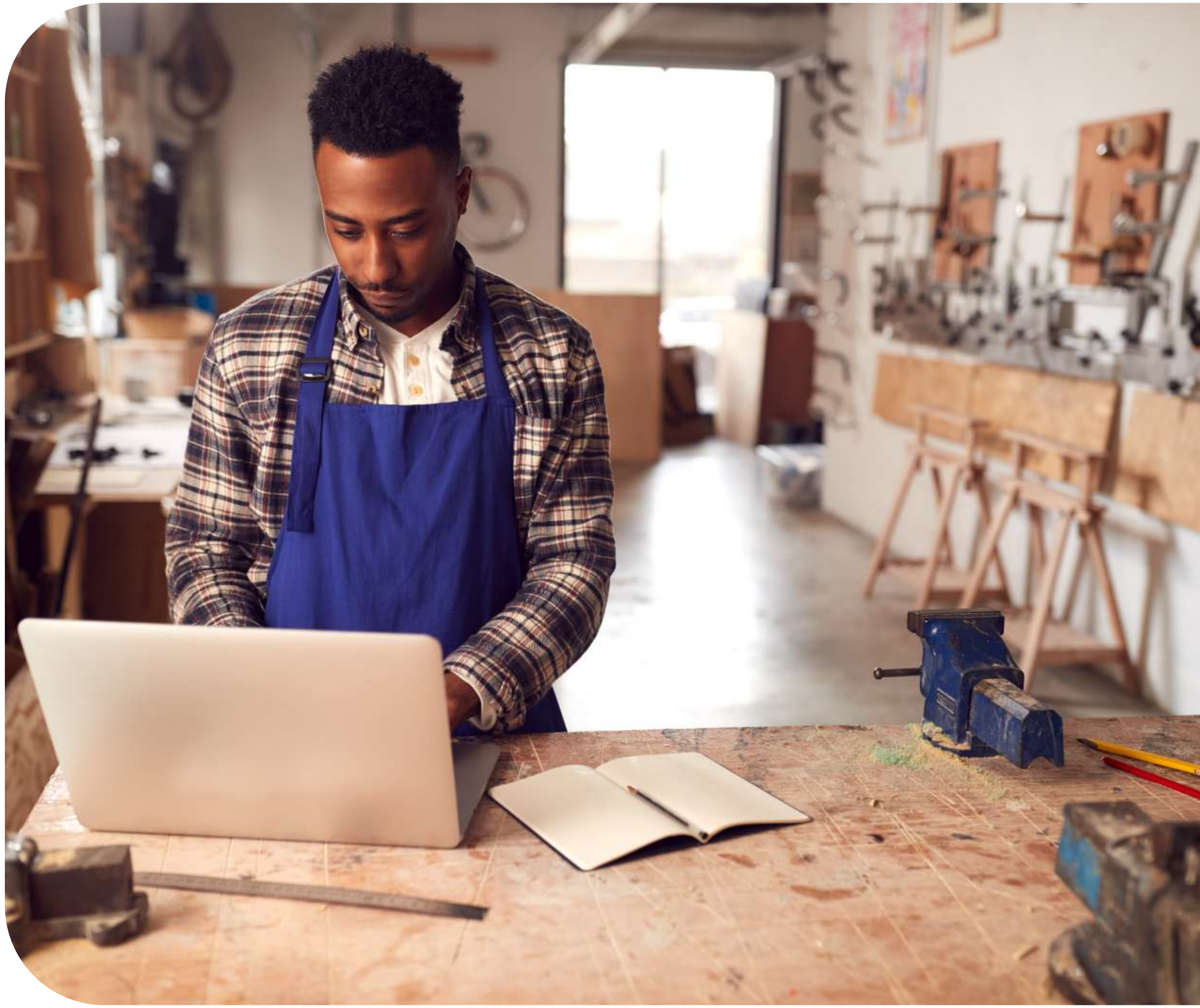
In its most basic form, a budget consists of:

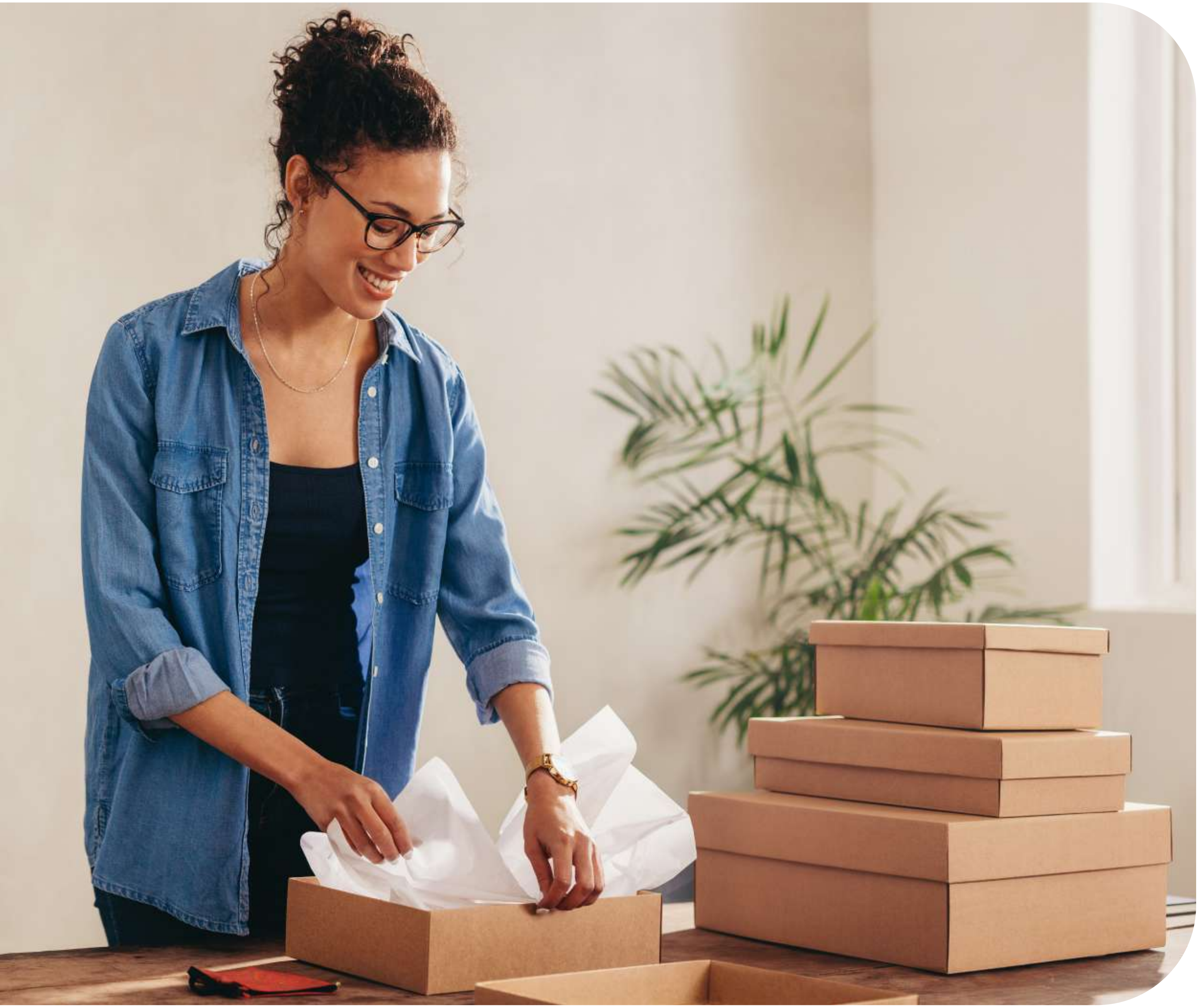
TIMELINE

Define the period of your business budget. Many small businesses will budget quarterly, half yearly or yearly.

INCOME

Map out your expected income for the period. It’s prudent to underestimate your income to avoid financially painful errors which can result in a cashflow shortfall.





FIXED EXPENSES

A fixed expense is an expense which is stable, reliable, and unlikely or impossible to change. For example, your own salary, rent, internet and insurance are fixed expenses.

VARIABLE EXPENSES

A variable expense is a cost which fluctuates and is less predictable. For example, rates, staff wages and stock purchases. As this is the most volatile aspect of your budget, do what you can to make variable expenses fixed (through fixed term contracts, for example).

Make sure to overestimate variable expenses to reduce budget shock.

What is budget forecasting and planning?

Budget forecasting and planning is the act of predicting cashflow and expenditure over a future period of time, based on both previous performance and predicted trends.

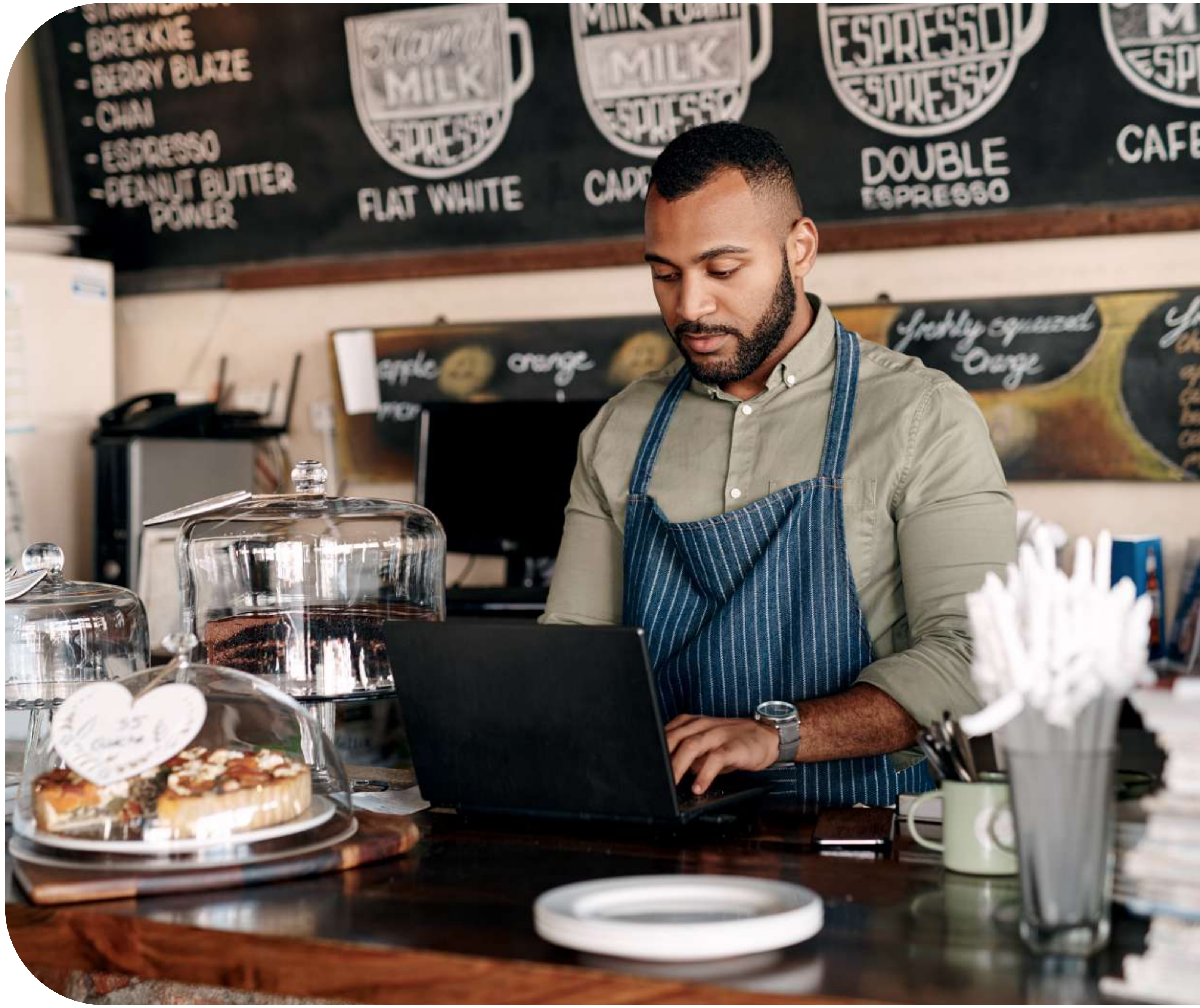
If you have implemented a budget and witnessed its performance, you can begin planning into the future with solid data to back your predictions.

Tip: Budget forecast reporting is often undertaken more frequently than a budget, often monthly.

How to make a budget

There are excellent and affordable modern software solutions for small business budgeting and forecasting.

If cloud accounting software is combined with the direction of a trusted advisor, you'll have a safe, automated, and professional platform to budget from.



In short: Use modern cloud accounting software or a budgeting tool to manage a budget which was designed in tandem with a bookkeeper or accountant.

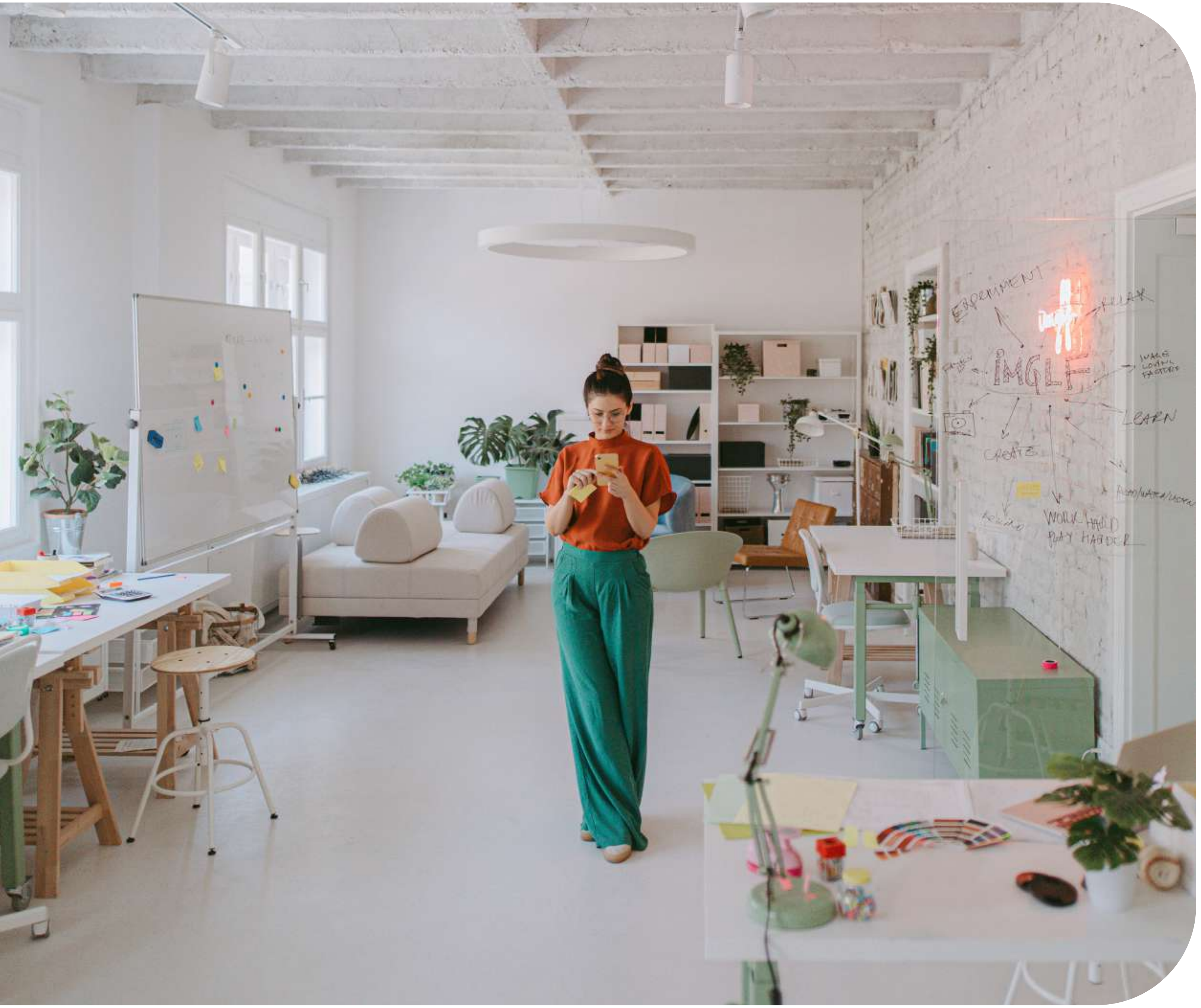
BUDGET FORECASTING TECHNIQUES

First and foremost, budget forecasting techniques can be deployed and managed within your chosen accounting solution. It will access the real data you input and make these calculations for you. If you'd like to understand the budget forecasting process better, the following is a simple breakdown of a budget forecasting technique:

- Identify key budget data (sales and expenses etc.)
- Compile your most recent actuals.
- Determine the time frame for your forecast.
- Analyse trends based on historical and current actuals.
- Apply these trend calculations and predictions to your real-time numbers to result in your budget forecast.

BUDGETING TIPS

- Always overestimate your expenses. You really can't go wrong with this overarching rule. In fact, you can go very wrong without it.
- Patterns form predictions. Once you have had a season of sales you should have the beginnings of a very important data set – your sales patterns.
- Budgeting shouldn't be purely the domain of the business owner. Get your staff in on the act too.
- While the design of a budget should be undertaken in tandem with a trusted advisor, the mechanics and upkeep of a small business budget are best managed with simple budgeting software.
- Use a budgeting app. Just do it.
- By leaning on affordable, accurate and automated accounting solutions, as well as an advisor, budgeting and forecasting for small business becomes an effortless and profitable affair.



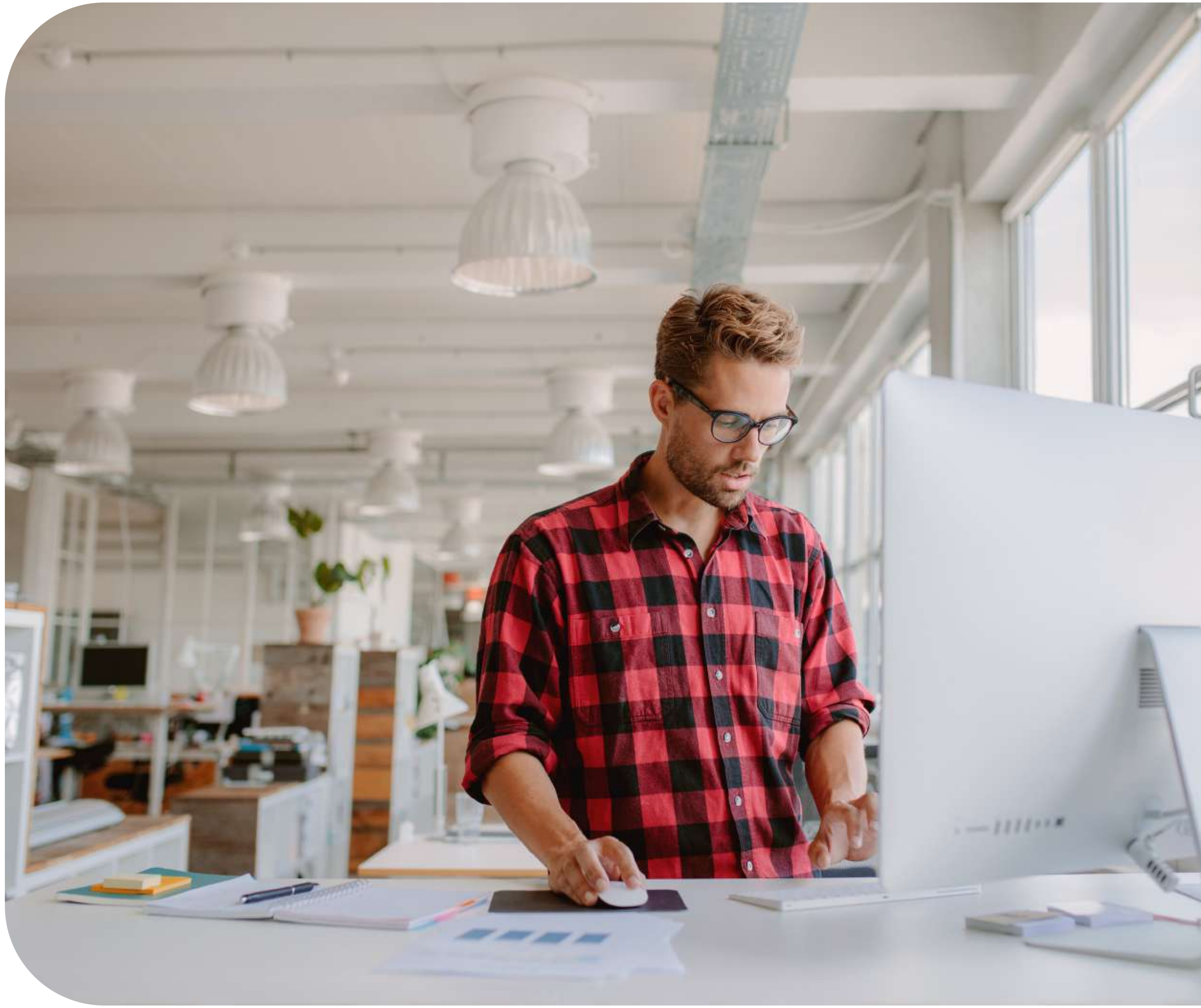
Accounting terms for small businesses

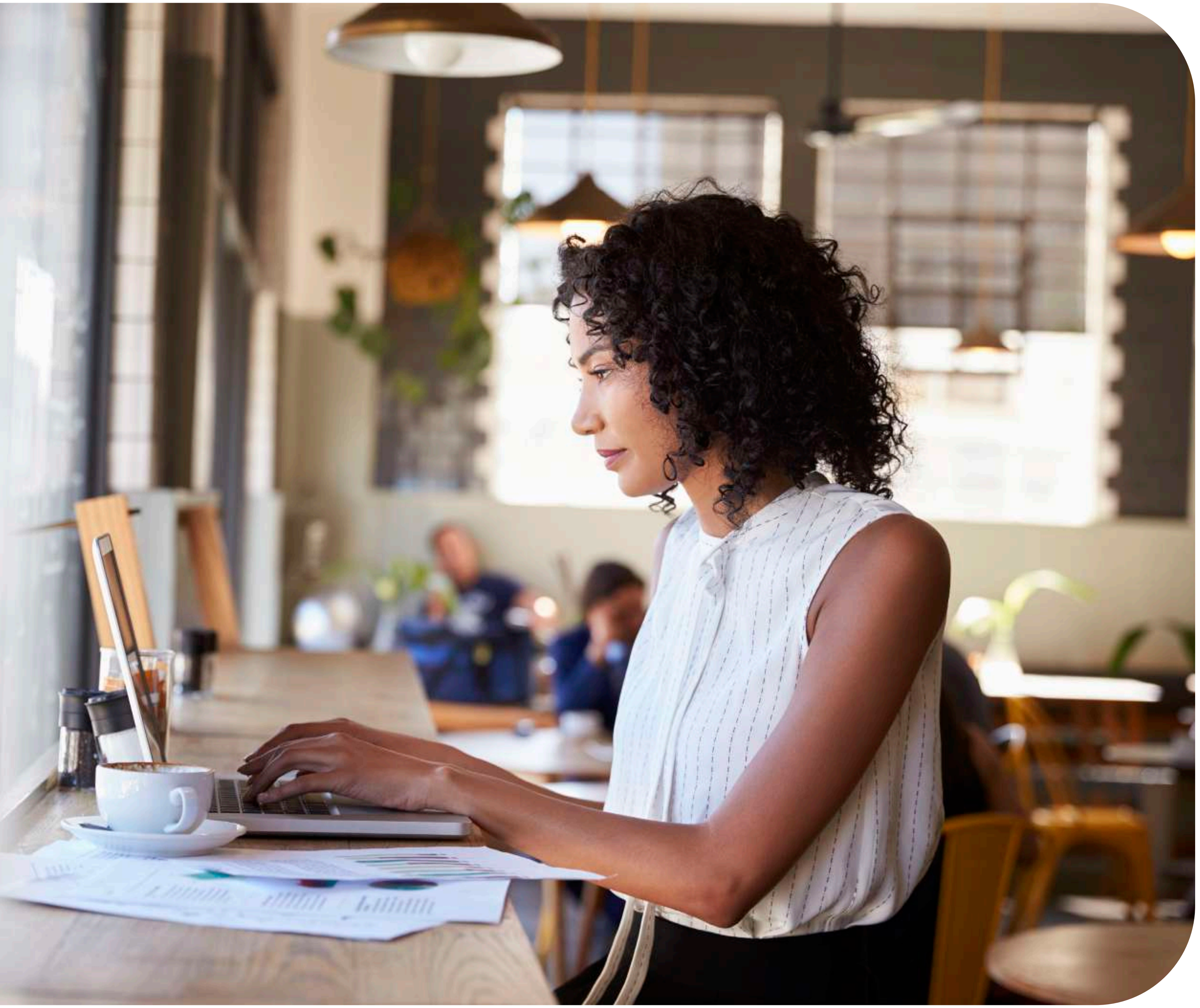
Getting to know accounting and its fundamental terminology means you'll be able to properly plan your costs and budget for the year.

Additionally, accounting ensures you're properly preparing tax reports for bookkeeping and government compliance.

So why are knowing accounting terms and concepts important?

- track and ensure you have adequate cash flow, which is vital to the success of your business
- monitor profit and loss statements and analyse where peaks and troughs occur
- produce financial statements and reports on your business's financial position.
- make better use of your bookkeeper or accountant's time, allowing them to help with your business and financial planning.
- keep track of your business's tax obligations such as collecting and remitting GST.





Accounting formulas

Here are some handy basic business accounting terms and formulas you can use to calculate and understand the financial health of your business. You can also find useful accounting equation calculators online.

THE ACCOUNTING EQUATION

This shows the relationship between assets, liabilities, and owners' equity, which is the basis of the statement of financial position (balance sheet) and is the most important principle in accounting.

Liabilities = assets – owner equity

Remember that the accounting equation must always balance.

WORKING CAPITAL

This is the money that is immediately available to your business for its day-to-day operations and can be calculated by:

Current assets – current liabilities

If you have a positive working capital this means you have enough assets to cover your short-term debts, whereas a negative working capital indicates that you're unable to do so.

CURRENT RATIO

Similarly, to working capital, current ratio is a liquidity ratio that measures your ability to turn assets into cash to pay off short-term liabilities.

Current assets ÷ current liabilities

This figure helps investor and creditors understand how easily you can pay off liabilities. A higher ratio is more favourable and shows you can more easily make current debt payments.

NET PROFIT MARGIN

A net profit margin shows the profitability of your business calculated by:

Net income ÷ sales

It's expressed as a percentage and the higher the number, the more profitable the business.

This number tells you how well your business uses its income showing you either a high profit for every dollar of revenue or it may show high costs that reduces the profit for each dollar of income.

BREAK-EVEN POINT

The break-even point will tell you the point at which your sales will cover its expenses and is calculated by:

Fixed costs ÷ (price – variable costs)

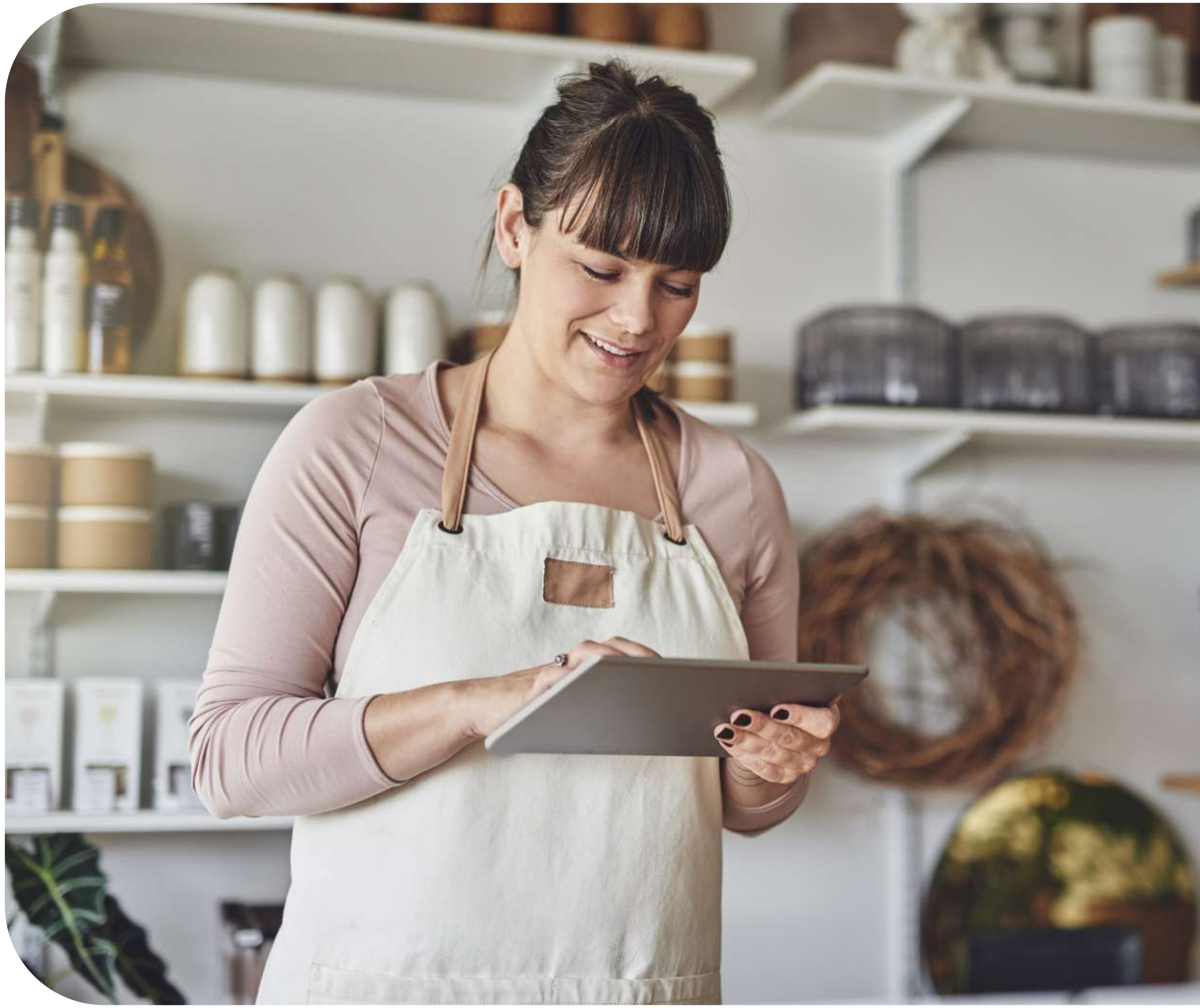
This break-even formula is handy to know so you can be aware of your level of sales and how much you need to cover your fixed and variable costs.

COST OF GOODS SOLD

You'll want to know the direct costs that went into the goods you're selling including your cost of materials and labour to produce the goods. This is helpful in determining how profitable your business is, what areas have potential growth opportunities and which ones you need to improve on.

The cost of goods sold formula is:

Beginning inventory costs
(at the beginning of the year)
+
Additional inventory cost
(inventory purchased during the year)
–
Ending inventory
(at the end of the year)



Financial statements

A financial statement is a report that’s completed to help analyse the overall financial performance of your business and can give you insights into where your cash is being spent and where it’s coming from.

BALANCE SHEET

This is also called the statement of financial position and shows your business’s total assets and how these assets are financed. The balance sheet equation is:

Assets = liabilities + equity

Take the time to understand your balance sheet so you always know your financial position, what you have and what you owe.

PROFIT AND LOSS STATEMENT (P&L)

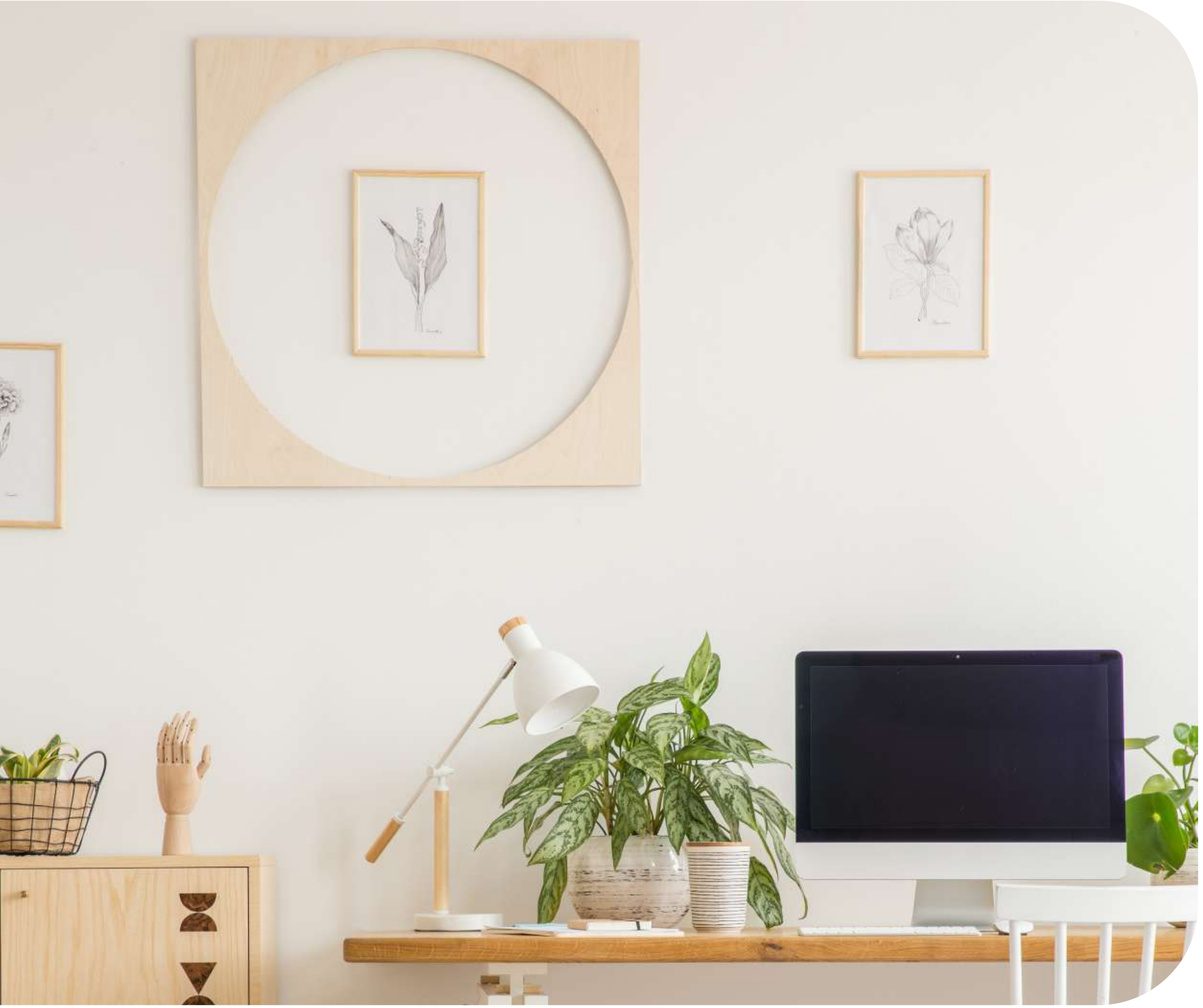
This report is also called the income statement and is generally required for your end of financial year reporting. It summarises the revenues, costs, payments from invoices, and expenses such as payroll incurred during a specific period.

It helps you understand your ability to generate profit, either by reducing costs and expenses, or by increasing its sales.

CASH FLOW STATEMENT

The cash flow statement reports the cash generated and used during the specified time. It looks at operating activities, investing activities, financing activities and supplemental information.

Essentially, it identifies the cash that is flowing in and out of the company, and helps you make decisions such as reducing debt or reducing costs. Want to learn more about small business account terms and formulas? Read our full Accounting 101 guide.



What is brand identity?

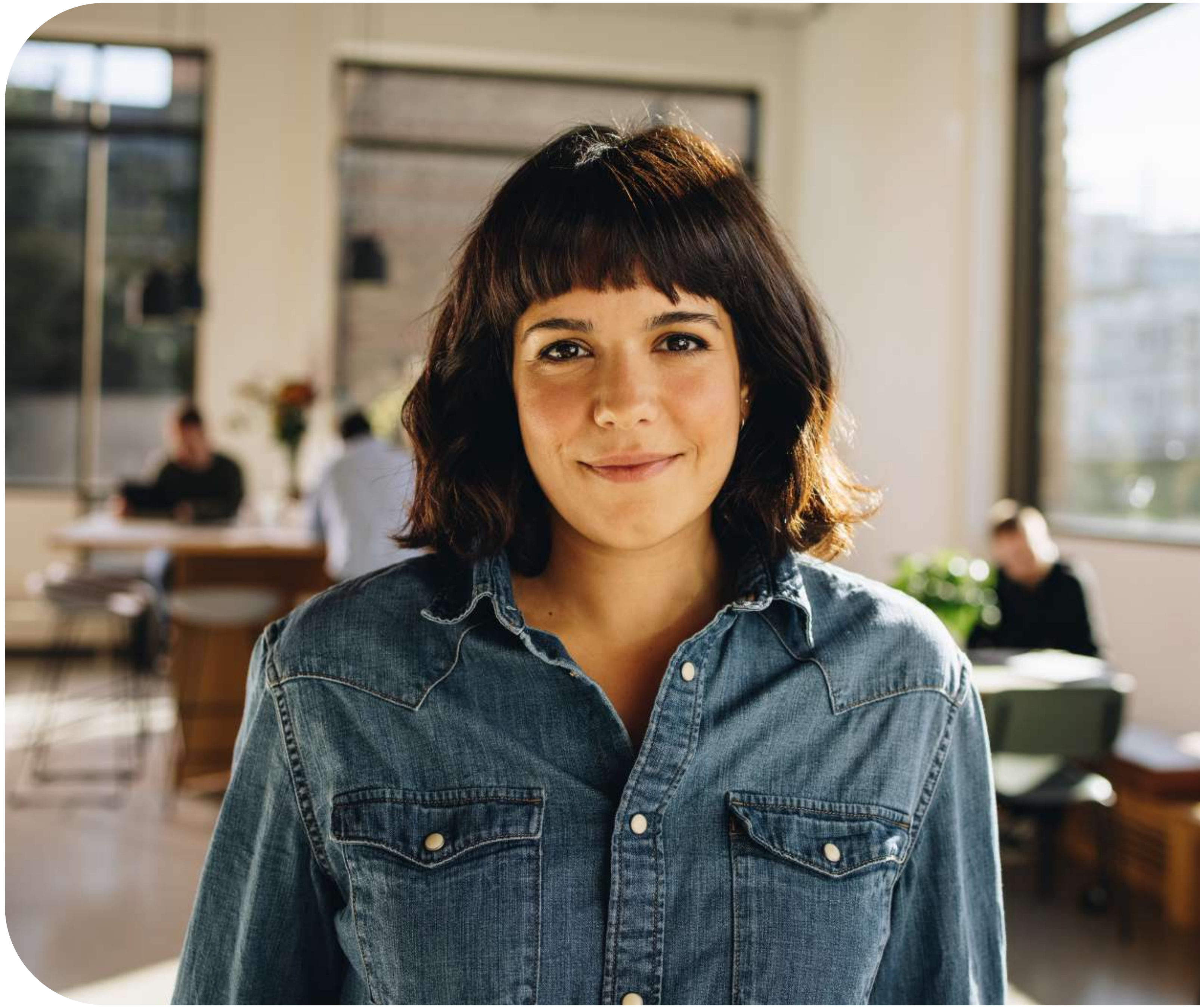
Branding and brand identity becomes more and more important as your business grows, as your bigger competitors will already have this down pat.

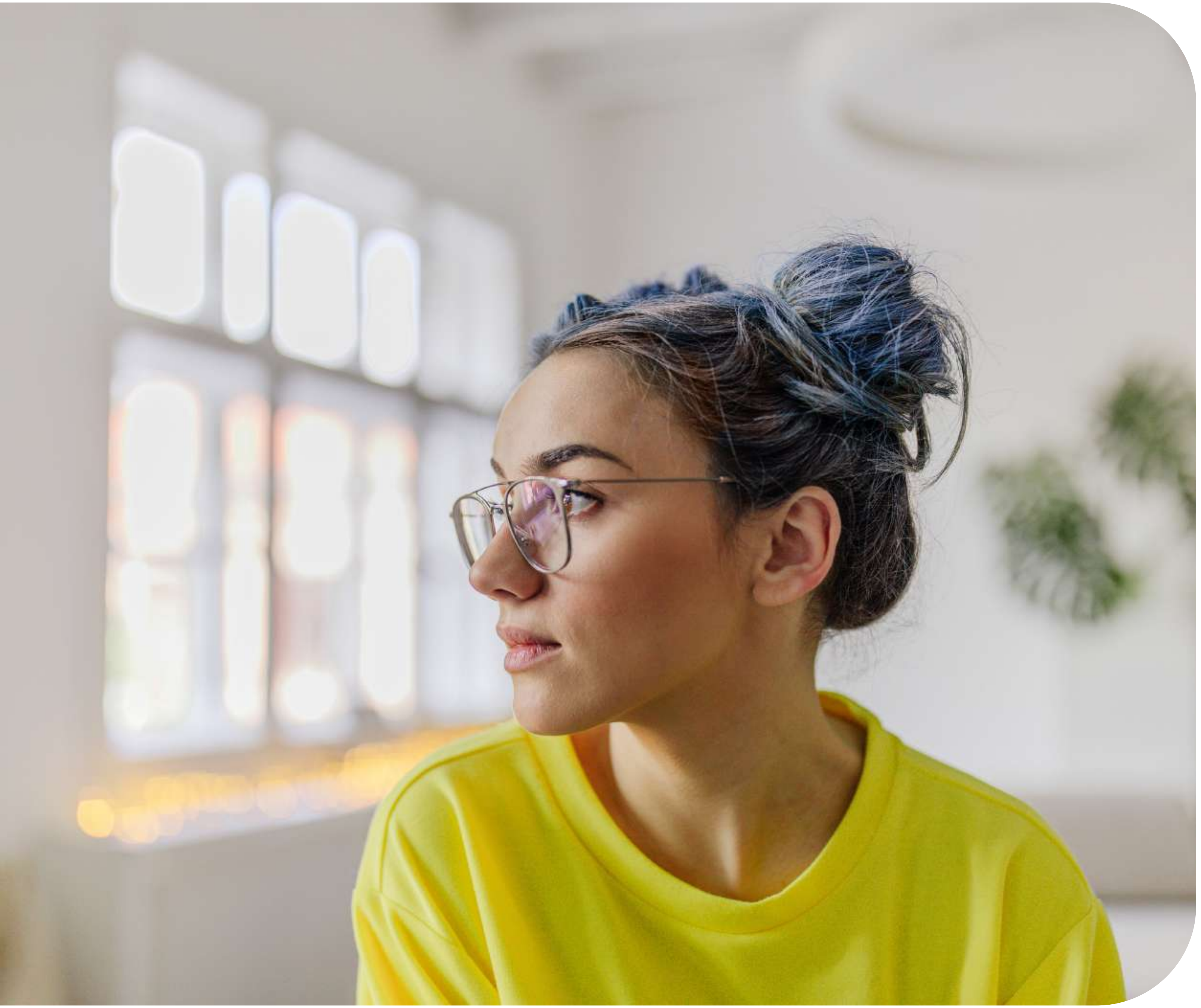
But if you're still a small business owner or a sole trader, it doesn't mean you should ignore the necessity of solid branding. Forming a unique brand identity is valuable for businesses of all shapes and sizes.

Why brand?

Why create a brand identity? You should be investing in your branding from day dot, regardless of your size or infancy. You will reap serious long-term benefits if you put sincere effort into your branding early, such as:

- recognition and trust
- return business
- a solid marketing basis
- increased sales
- credibility





Why do you exist?

Why create a brand identity? You should be investing in your branding from day dot, regardless of your size or infancy. You will reap serious long-term benefits if you put sincere effort into your branding early, such as:

- Who are you?
- Why am I talking to you?
- What makes you special?
- How can you solve my issues?

Brainstorm your answers to these and create a list of attributes your brand wants to embody. These attributes and purposes should inform your whole brand identity.

It's also important to really decide who you're speaking to – your understanding of the audience you desire as customers is imperative to your brand purpose.

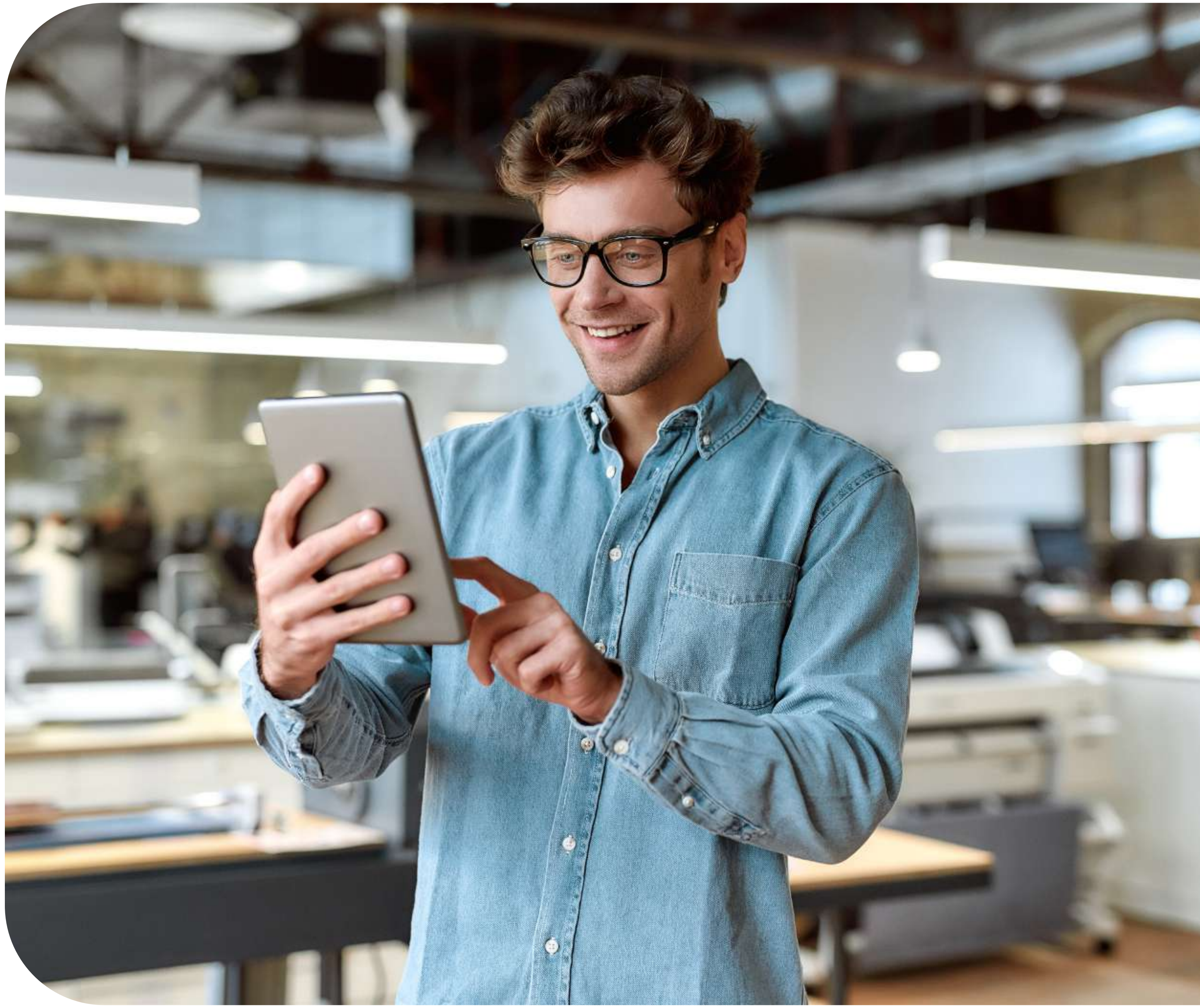
Some examples of a brand purpose are:

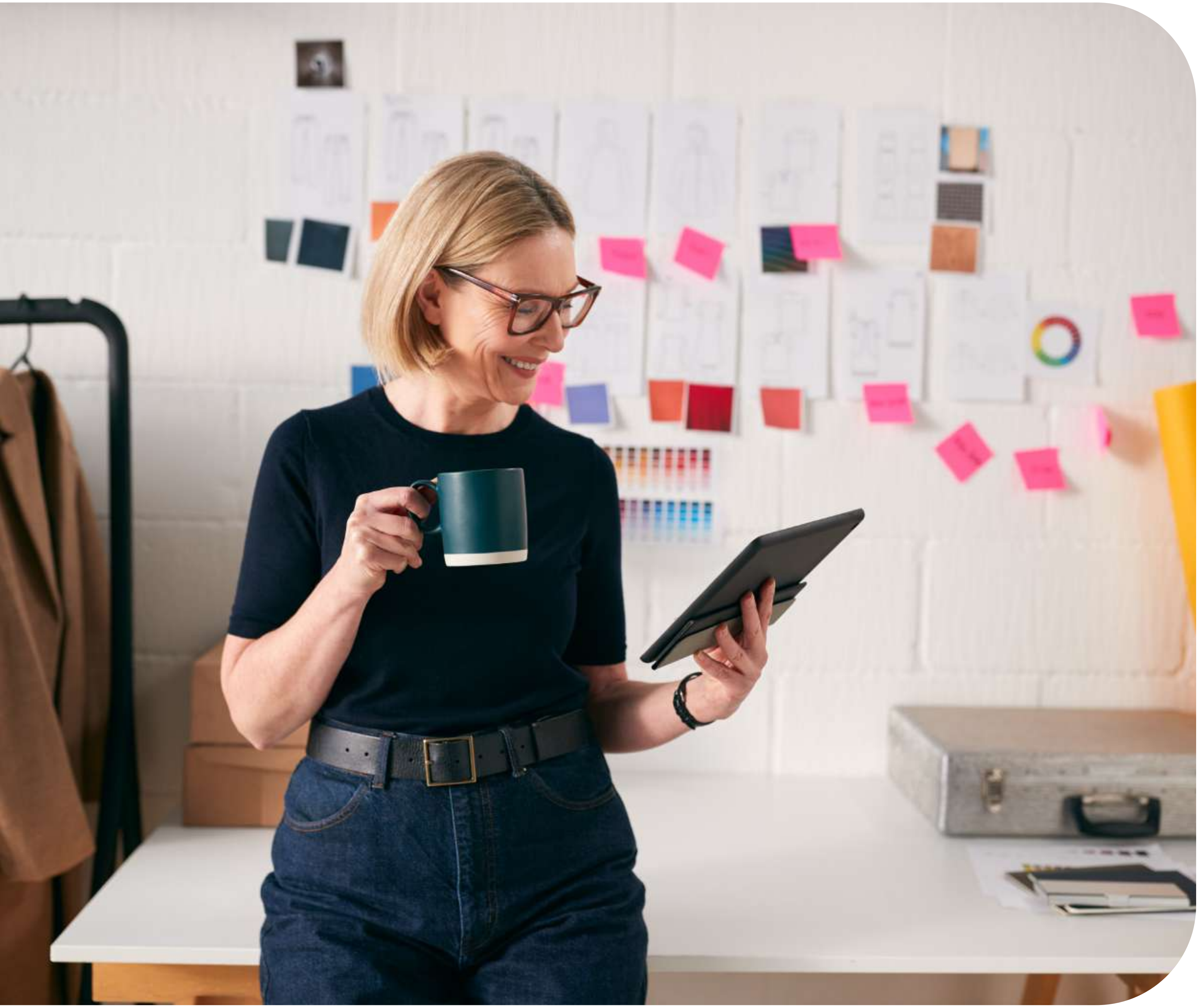
- Tesla: “Tesla’s mission is to accelerate the world’s transition to sustainable energy.”
- Apple: “To empower creative exploration and self-expression.”
- Nike: “To bring inspiration and innovation to every athlete in the world (and everybody is an athlete).”

When you define your brand purpose, think about why people are buying from you. Everyone buys clothes because we need to wear them, but that doesn’t separate clothing brands from each other.

Craft a unique voice

A ‘brand voice’ is an essential part of your business’s identity. It needs to be laid out to ‘feed’ the other aspects of your brand and to communicate effectively and consistently with your customers and prospects.





Think of your services and products. Think of your audience. Think about how you want to 'come off' when communicating with the market. Now use that to inform your entire tone of voice or brand voice.

Develop your branded assets

This is the stage of business where the excitement is still buzzing and the passion for your business idea really surges forth.

Before you engage any designers or copywriters, it pays to have a solid idea of what you want in terms of your visual identity. Let the professionals hone it for you.
You'll need to create:

- logos
- brand colours
- taglines
- brand guidelines

That's it folks. By now you should have a solid footing from which to launch your Australian business. If you've absorbed this knowledge and applied it to your own business idea, you'll have afforded yourself every chance of success. Good luck!