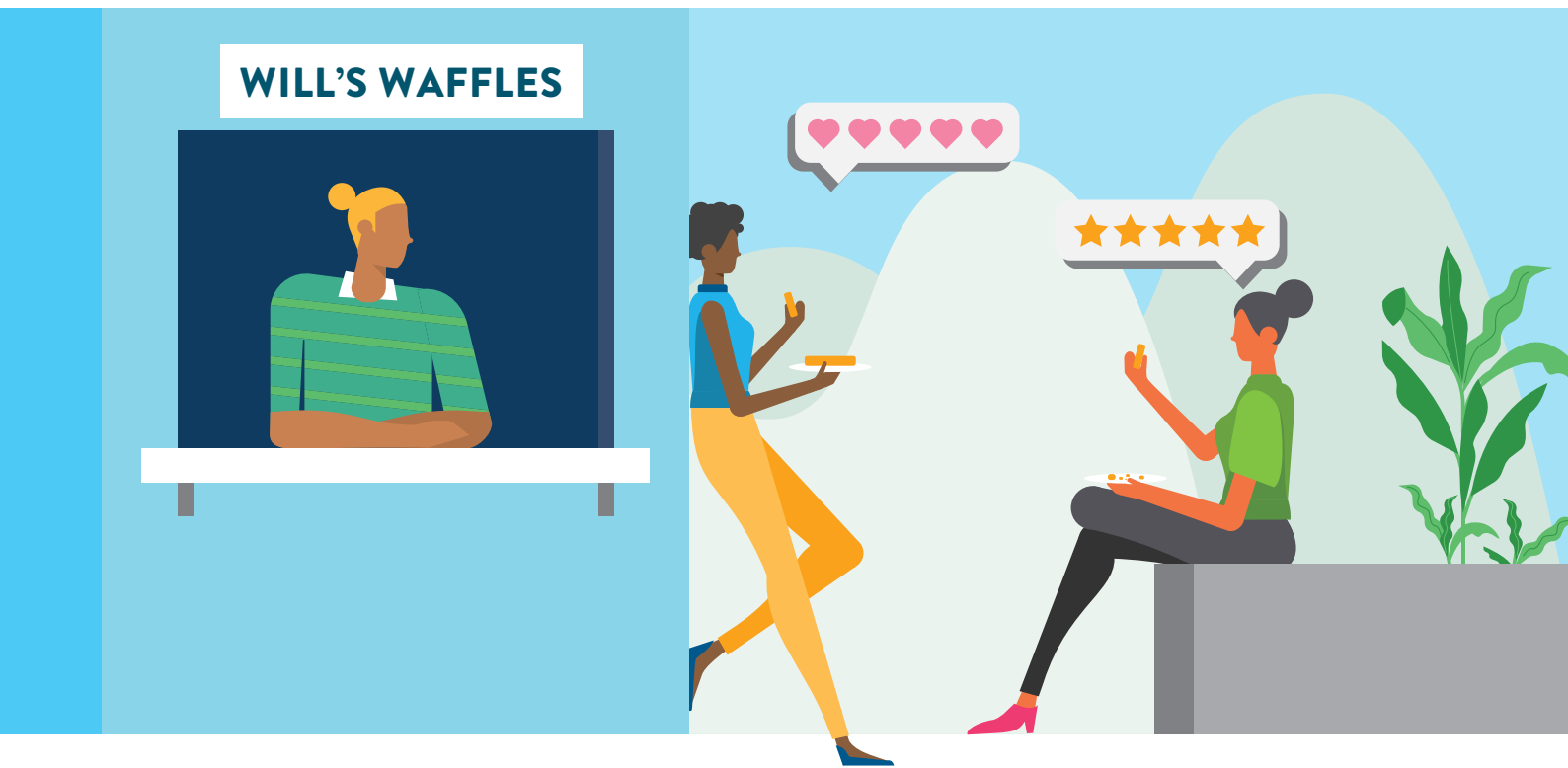


# *Your guide to starting a business*

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xero



# ***Your guide to starting a business***

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Lots of new businesses open every day. If all those people can do it, why not you? This guide will help you work through the process.

*This guide is intended as general information only. Always check with a professional for advice.*

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# 1

***The secret to  
starting a business***

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Starting a new business is a big job, but don't let that put you off. Thousands of people do it every day and those collective experiences have given us guidelines.

### Starting your own business is a process, not an event

People talk about 'taking the plunge' into small business like it's an adrenalin sport. And there will be some heart-stopping moments, like when you take a loan, sign a lease, or greenlight your first order of supplies.

But starting a business isn't one big decision. It's hundreds of small decisions. And if you want to succeed, you need to move through them systematically and with a cool head.

### You don't have to think of everything right now

There'll be hundreds of variables and numerous unknowns when you first consider starting a business. It's hard to unpick it all.

That's why you need a process. It allows you to deal with things in the right order and saves you from getting stuck on problems before you have to.

### How to start a business in eight steps

Use the tools and insights in this guide to grow your idea into a business, step by step.

1. [Assess your business idea](#)  
Checking if your venture has legs.
2. [Write a one-page business plan](#)  
Outlining your goal and how you'll get there.
3. [Do market research](#)  
Learning about your customers and competitors.
4. [Build a sales forecast](#)  
Getting to a realistic number.
5. [Create a budget](#)  
Figuring out how much money the venture will make.
6. [Write a long-form business plan](#)  
Pinning down the details (including marketing and promotion).
7. [Organise finance](#)  
Working out how much you need, and how to get it.
8. [Start up](#)  
Getting the show on the road.

Figuring out how to start a business is just the beginning. Once you're launched, you'll need to run the ship. There are sales to make, accounts to keep, budgets to watch, taxes to file, and so on. This guide takes you through that, and more.

### Let's get into it

Set yourself a deadline for completing your research and planning. Schedule a particular time to work on it every week. It's vital that you're disciplined: treat it like the business it is, and you'll reap the rewards.



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# 2

***Putting small  
business ideas  
into action***

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How do you come up with a small business idea and how do you decide if it's any good? Can you do your own research? When will you need to get professionals involved? Here's how to put your business idea into action.

### Where do good business ideas come from?

Not many businesses start with a eureka moment. Some don't even start with an idea at all. A hobbyist, for example, might just fall into business by doing what they love.

Most other businesses are built around very simple ideas. It might be an old concept in a new location. Or an old service delivered online. You don't need to be touched by genius to come up with something. You just need to be able to spot an opportunity.

### Brainstorming business ideas

It's hard to sit down and think up a business idea through sheer willpower. For most people, business ideas form slowly, in an unplanned way. But that shouldn't stop you from brainstorming.

In fact, a brainstorming session now could help you have a 'spontaneous' idea later. Many psychologists believe that when you give your brain a job to do, it keeps working on it even when you've stopped paying attention. This is called the Zeigarnik effect and it may explain why ideas often come to us when we're out running, in the shower, or lying in bed, rather than when we're actively thinking about problems.

So even though a series of brainstorms might yield nothing in the short term, they could still set your mind on the path to a big idea.

### What products to sell, or services to provide?

A lot of people try to come up with business ideas by thinking about products or services first.

- **What are people buying?**  
There are techniques (and apps) for estimating what's selling on Amazon, for example.
- **Which products or services have the best margin?**  
It's easy enough to compare retail prices to the costs of delivering goods or services.
- **What products or services would be costly to produce and sell?**  
Common sense will tell you what products spoil, go out of date, or are hard to ship. Likewise, you'll have a sense of what services might become dated or difficult to deliver efficiently.



These are great questions to ask when doing a formal business plan. But don't overcomplicate it when first considering business ideas. Start by looking for a gap in the market – preferably one that you would enjoy filling. You tend to learn faster and network better when working on something that interests you.

### Good business ideas can be bold or traditional

An idea that's really original will present different challenges to one that's been proven before. Where is your idea on the originality scale? Does your personality and skill set suit one type of idea more than the other?

#### New ideas often involve more:

- trial and error
- difficulty finding suppliers
- hand-holding with lenders and investors
- educating the market
- uncertainty

#### Tried-and-true ideas involve more:

- convention
- supply chain politics
- price competition
- difficulty standing out
- limits to expansion

### Lifestyle business or world domination?

Your approach to business will be affected by your end goal. If you're aiming for high growth, you'll need:

- plans for ramping up production when things take off
- access to a lot of money (probably through equity investors)
- a long-term view of profitability (as short-term revenue will be reinvested)

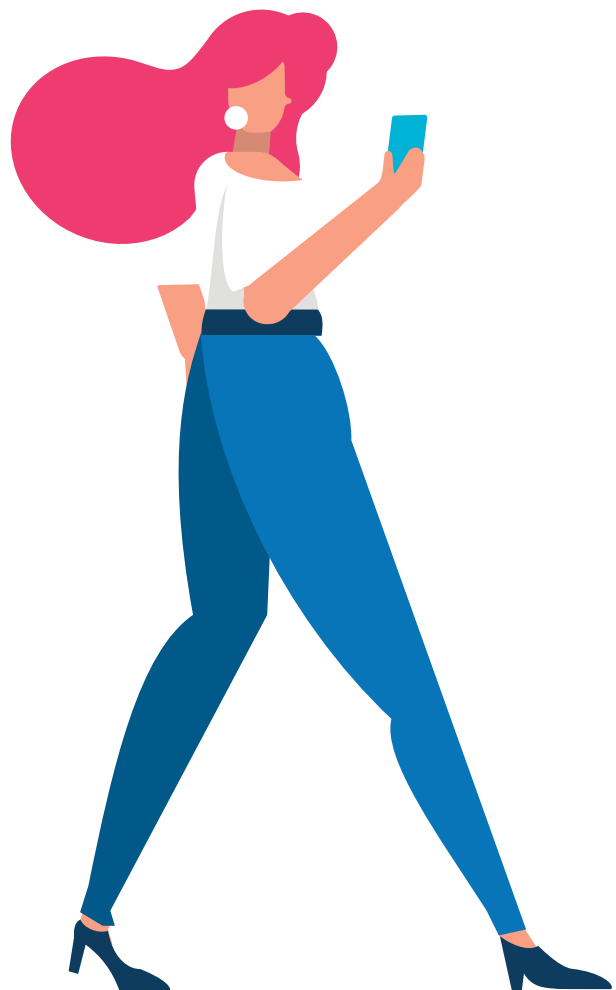
### Is business right for you?

You may be buzzing about starting a business when you first come up with an idea, but think about the bigger picture. Most business owners work long hours and still end up wishing they had more time. They don't enjoy all the jobs they have to do either (like chasing late payments). Consider everything that small business entails before charging in.

### How to start a business using someone else's idea

Franchises can be a good way to get into business. Some come with a very specific manual on how to operate and succeed, plus guidelines for your forecasts and budgets. It takes away a lot of the trial and error that you'd go through if you were starting from scratch. Franchises differ a lot in the level of support they give you and the expectations they have of you. Do plenty of homework.

Check out our guides on [Questions to ask before becoming a franchisee](#) and [Franchise accounting tips](#).







### Testing business ideas

To help organise your earliest thoughts, think about starting a business from three angles.

1. **Customers**  
Who are they? How will you reach them? Why will they choose you, and what will they pay?
2. **Resources**  
Can you get the supplies you need? What tools will you need? Will you need contractors or staff?
3. **Finances**  
How much will you have to charge? What will it cost to launch? Where will that money come from?

### Keep an eye on the future too

When will you break even? Could competitors undercut you in the meantime? Will there be enough after-tax profit to reinvest in the business? Don't focus solely on how to start a business. Think about what comes next.

### Customers are the most important thing

Unless someone will pay money for your goods or services, then the rest doesn't really matter. It's vital to find out if there's a market. Market research needs to include your customers and competitors. You don't have to do full-scale studies straight away, but it pays to start testing the waters as soon as you can.

Check out these guides on [How to do competitor analysis](#) and [How to do market research](#).

### Why you're not the best judge of your idea

Coming up with an amazing idea for a business might feel like you've hit the jackpot, but beware of overconfidence. We're all naturally attached to our ideas and we have a hard time accepting their flaws.

A study at the Gustavson School of Business and Washington University found that people are hung up on their own ideas and become emotional when faced with negative feedback.

### The value of good business advisors

You don't have to go through all this thinking on your own. In fact it's not recommended. Find yourself:

- **a mentor**  
Meeting someone who's already in business can help you avoid the mistakes they made. [Listen to our podcast on finding a business mentor](#).
- **an accountant or bookkeeper**  
Get a professional to check your numbers and help with things like finance. [Learn about all the things an accountant can do for you](#).

## Putting small business ideas into action

### Business viability checklist

To help you remove your own biases, work through this exercise.

1. Is your product or service solving a real problem for users?

A. Yes, we've checked with the target market.

B. I think so, but haven't done any research yet.

C. I think so, but the research doesn't support that yet.

2. Will your target market change their behaviour (and pay the required amount) to get your solution?

A. Yes, I've asked them.

B. I'm not sure yet.

C. It's probably going to be a difficult decision for them.

3. Have you done any competitor research?

A. Yes, I know their strengths and weaknesses.

B. A bit, but I'm only getting started.

C. No, I'm not even sure who my competitors are.

4. Do you have access to money?

A. Yes, I think I can get what I need.

B. I'm figuring that out now.

C. I don't know what I need.

5. Do you have the time and resources to put into your business?

A. Yes, I have a plan to bring it to life.

B. I think so, but there's just so much to do.

C. I don't know. I haven't found time to think about that yet.

6. Have you written a business plan?

A. Yes, and it's been reviewed by an accountant.

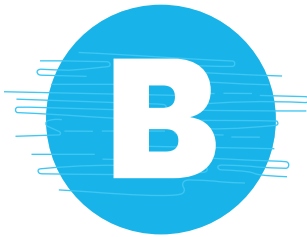
B. I've started it, but it needs work.

C. No, I've just got a ton of notes.



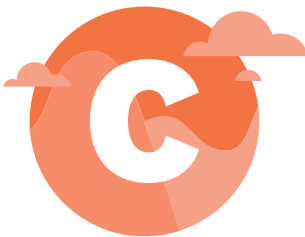
**Mostly As:**

It sounds like you know what you're doing.  
Keep going!



**Mostly Bs:**

You've made a start but things are stalling.  
It's time for some homework.



**Mostly Cs:**

Your idea needs some work. Do some more  
research and think through things in more detail.

**What if my business idea doesn't seem viable?**

You don't have to give up just because your idea fails some of these tests. You might be able to resurrect it with a few tweaks. Maybe your target market is wrong. Or your price. Think creatively.

If it still doesn't stack up, then file away your notes and move onto something else. But don't throw anything away. You might come up with the perfect way to make it work in a year, or 10 years from now. Ideas are never over.



*'If you're passionate about starting a business, just dive in. Don't overthink it. Have a strategy, but make sure it's flexible enough to adapt and change. As the saying goes, "Plans are worthless, but planning is everything".'*

Don Grgic, [Business Boost Centre](#)  
Xero silver partner

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# 3

***How to write a  
business plan***

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Are you daunted by the thought of writing a big, formal business plan? You're not alone. A lot of people start and never finish, but you don't have to be one of them. You can start with smaller tasks and work your way up.

### What is a business plan anyway?

Think about your business plan as a road map. You know where you want to go, you just need to write down the directions to get there. The good news is it doesn't have to be super detailed straight away. That's because there are two types of business plan:

- the [lean one-page plan](#), which is a great way to get going and build ideas
- the [more formal long plan](#), which you'll need if and when you're looking for business funding

The content of each is broadly the same. You say who the target market is, why they need your product or service, how you'll reach them, who you're competing with and, of course, how much money you'll make.

### How to do a fast, one-page business plan

The key to a one-page plan is to start out simple, and grow it as you go. You can begin with a few headings and some bullet points mapping out your vision, goals, milestones and financial forecasts.

Things will keep changing, and new information will come in, so think of it as a living document. Keep tweaking it as things evolve. Sections for a one-page business plan:

- 1. Value proposition**  
Make sure the reader understands the unique value you'll provide in a few clear, simple sentences. Cut the jargon and fluff, and get to the point.
- 2. The problem you're solving**  
Expand on the problem that you're solving. Imagine that you're talking to someone who's never heard your idea before. What is it about your solution that hasn't been done well before?
- 3. Target market and competition**  
Who are you selling to, and what other choices do they have? How are you going to serve them better? This is where you need to show you've done some market research.
- 4. Sales and marketing**  
How will people learn about you? Will you use social media? Do your customers read trade publications? Or will you sell to them in person? Figure out where your target audience is, and go there.

### 5. Budget and sales

Do some forecasts of sales and outgoings. What will your margin be on each sale? Will it be enough? How many sales will you need to make a profit? Use the figures to define 'success'.

### 6. Milestones

Milestones will help you keep an eye on the big picture. For each milestone, say why it's important, note what (or who) you need to make it happen, and put a due date on it. This helps break everything you need to do down into manageable pieces.

### 7. The team

Who's part of your business and why? Write a couple of lines for each person, including their goals and responsibilities. Do this even for roles you haven't yet filled.

### 8. Funding

Identify how much you need (or already have) and what it's for. When will repayments be made, and when do you expect to have paid it all back?

When writing a business plan that's just one page, you need to keep things short and to the point. If there are lots of details for one of the sections, keep them on a separate document. Just run with a high-level summary in the one-page plan.

It's often harder to write something short, so take a few passes. Whittle it down as you go. Make your language clear and simple. A 12-year-old should be able to understand it.

You can make a start by downloading our [free one-page business plan template](#).

### For some, one page is enough

Some people start a business with little more than a one-page plan. Rather than doing a whole heap of research, they launch their service or product quickly and watch the reaction of paying customers. After gathering that feedback, the business adjusts and improves their offering as fast as possible.

This lean startup methodology doesn't suit all businesses. If you need finance from banks or investors, then you'll probably need a more complete business plan.

# How to write a business plan

## Example of one-page business plan

You'll be surprised what you can fit on a single page. Use bullets, be concise, and save the details for other documents.

### The Usual Suspects Clothing Company

We create beautiful, ethical clothing at affordable prices, for essential wardrobe basics.

Value proposition

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**The market problem**  
It can be hard to buy basic cotton items like socks, t-shirts, and tops that are not only ethically made, but great quality, and inexpensive.

**How we will solve it**  
The Usual Suspects Clothing Company will be an online store where people can buy well-made and beautiful clothing basics, without the expensive price tag.

The market opportunity and your solution

---

**Target market**  
57K potential customers

- 50% female, age 23-37
- 50% male, aged 28-40

**Competitors**  
Local bricks-and-mortar clothes shops

Large online retailers

**How our product is better**  
Our clothes are available online, and deliver anywhere in the world. Often local stores have no real knowledge of where the clothes are made or in what condition

Lack of visibility over contractors in larger countries and lack of knowledge about the working conditions

Target market and competition

---

**We'll need 250K**  
This will be used to complete construction of our clothing factories in three core markets.

**Funding**

Funding needed — and how it will be used

---

**Sales channels**  
We sell ethical clothing basics through our website.

**Marketing activities**

- Partner with Fairtrade organisations
- Advertise online where the target market is present
- Launch of company via an event with special deals and incentives, plus educational media
- Document working conditions and create marketing collateral that tells a story

Sales and marketing

---

**Financial projections**

Budget and sales goals

---

**Milestones**

1. Validate target market. [Insert date due, budget and name of person]
2. Create targeted loyalty program [Insert date due, budget and name of person]
3. Hire four new employees [Insert date due, budget and name of person]

Milestones (include name, due date, budget and person involved)

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**Our team**

Founder   Manager   Designer

**Potential partners**

Accountants

Fabric merchant

Blogger

Your team and people you need to hire

Partner/s or potential business partners

### Struggling to get started? Try a SWOT analysis

If you can't get into a flow with your planning, try doing a SWOT analysis. It's a great way to organise your thoughts and kickstart the planning process.

#### What is a SWOT analysis?

SWOT stands for strengths, weaknesses, opportunities and threats. It's a way of thinking about your business from the inside out, and from the outside in.

- Strengths = things that are great about the idea
- Weaknesses = things about the idea that could be better
- Opportunities = things about the environment or market that will help the idea take off
- Threats = things about the environment or market that will work against you

A SWOT analysis gives you talking points for your business plan, and concrete action points for getting launched.

#### How to do a SWOT analysis

To do a SWOT analysis, divide a page into quarters, then list your strengths, weaknesses, opportunities and threats in the four boxes.

#### So you've done a SWOT analysis – now what?

Your SWOT analysis is likely to have uncovered some new strategies, goals and things to work on. There'll be something to do in each quarter of your SWOT analysis.

- 1. Strengths**  
How will you build on your strengths? Is there more you could do, such as other opportunities to go after? How can your strengths help you deal with threats?
- 2. Weaknesses**  
Which weaknesses are the most glaring? Can they be fixed? Will it take more money, more people, or more knowledge to do that?
- 3. Opportunities**  
Set goals for each opportunity. Ensure that the goals are specific, measurable, attainable, relevant and have a timeline (also known as SMART goals).
- 4. Threats**  
Threats tend to attack your weaknesses first, so use this as another opportunity to remedy your weaknesses and reduce the risks.

These action points will be a great starting point for your business plan and your marketing plan – both documents tend to take shape together. Start with the one-page version.

### SWOT template

Internal factors	<b>Strengths</b> <b>Action &gt; Capitalise on these</b> Answer these questions: <ul style="list-style-type: none"><li>• What do you do well?</li><li>• What do you do better than others?</li><li>• What unique capabilities and resources do you possess?</li><li>• What would others say your strengths are?</li></ul>	<b>Weaknesses</b> <b>Action &gt; Monitor these</b> Answer these questions: <ul style="list-style-type: none"><li>• What don't you do as well as you'd like?</li><li>• What does your competition do better than you?</li><li>• What can you improve on?</li><li>• What do others say your weaknesses are?</li></ul>
	External factors	<b>Opportunities</b> <b>Action &gt; Improve these</b> Answer these questions: <ul style="list-style-type: none"><li>• What are the business goals you are working towards?</li><li>• What else can you offer to your existing customers or clients?</li><li>• What kind of technology could you use to enhance your business?</li><li>• What new target audiences might there be?</li><li>• What other products or services could you provide?</li></ul>

### Writing a longer business plan

Once you've done a lean one-pager, you'll have a much better idea of how to write a detailed business plan. You're really just expanding on what you already have.

#### Contents of a business plan (11 essential sections):

- 1. Executive summary**  
Provide a short summary of the main points of your business plan. Although it comes first, write it last.
- 2. Company overview**  
Identify your industry and your business model.
- 3. Products or services**  
Include the context for the problem your products or services solve. You could include your SWOT analysis here.
- 4. Market analysis**  
Identify your target market, and the competition including their strengths and weaknesses.
- 5. Risk assessment**  
What could go wrong, and how likely is it that those things will happen?
- 6. Marketing and sales plan**  
What's your message, and how will you push it out? How many sales can you get?
- 7. Milestones**  
What needs to happen and when? How will you measure success for each milestone?
- 8. Progress reporting**  
When and how will you report against these milestones? You don't have to be overly formal. Just make sure you're doing it.

- 9. Team**  
Name the people involved, note their special skills, and assign responsibilities.
- 10. Budget**  
Take your sales forecasts and show how they play out financially.
- 11. Finance**  
Show how capital will be used to get set up and maintain operations initially. Show when debts will be repaid.

You can also add an appendix with any supporting or background documents.

Make a start by downloading our [free business plan template](#).

### Avoid these common business planning mistakes

- Underestimating how much money it will take to get started
- Not budgeting enough money to cover the first few months of operation
- Expecting sales to ramp up too fast
- Relying too heavily on one or two customers (or suppliers)
- No contingencies for unexpected delays or costs

For more information, visit the MBIE [page on writing a business plan](#), which comes complete with templates to help get you started.



*“Reduce financial risk by validating your business idea first. For example, you could open a pop-up store first, instead of paying for the fit-out of a retail store.”*

Meryl Johnston, [Bean Ninjas](#)  
Xero gold partner



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# 4

## ***Getting business finance***

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Starting a business can be expensive, but what if you don't have the cash? What sorts of business finance are available? And how do you get access to them?

### Your business funding options

Not all businesses can get every type of finance. For starters, you can't sell shares in your business if you're a sole trader or a partnership. And you can't issue share documents unless you're a corporation. The idea at the core of your business will also affect your business funding options. For example, traditional lenders like banks don't really go for outside-the-box ideas.

There are lots of business funding options, but they fall into two broad categories:

- **Debt (lending)**  
Where you borrow money and pay it back, generally with interest.
- **Equity**  
Where you get cash by selling a part of your business to an investor.

Presales are a third way to raise funds. In that scenario, customers pay before you've created the products or services they're buying. Debt and equity are far more common, however. Businesses that have access to both tend to prefer debt.



#### Debt financing pros

- It's easier to find.
- You retain full control of the business.
- You keep profits to yourself.
- Interest is simple to budget for.

#### Debt financing cons

It's hard to fund innovative business ideas through debt financing. Banks prefer safe bets. If you have a mind-blowing new idea, you'll probably need to explore equity financing, private loans, or presales.



#### Equity financing pros

- You pay back nothing if the business fails.
- You can access the investor's networks.
- Investors give strategic advice.
- Investors are open to risky ideas.

#### Equity financing cons

Investors get some control over your business and profits have to be shared. As a startup, you'll sell shares at their cheapest. After a period of success, it may feel as though you gave them away.

### Common types of bank loans

Banks offer debt financing in two main ways:

- **Term loans**  
Where you borrow a lump sum for an agreed amount of time and make monthly repayments. The lender works out the interest you owe every month and adds it to your debt.
- **Line of credit**  
You're given a borrowing limit and only withdraw the money if and when you need it. You only pay interest on what you use.

The amount of money you can get, and the interest rate, may depend on how you secure the loan.

### How will you secure your loan?

Security is something that your lender can claim to get their money back if you stop making repayments. It can include things like:

- real estate such as a house
- other assets such as vehicles or expensive equipment
- a personal guarantee, which allows the lender to sue you for unpaid loans

As you move down the list, the size of loans get smaller and the interest rates get higher. But to offer something as security, you have to be prepared to lose it, so this is often a difficult choice.

You can also take unsecured loans. A credit card is an example of that. But the borrowing limits will generally be lower and the interest higher.

### How much to borrow to start a business

Your budget can help you here. It'll show how much cash you need to build the business, and you'll know how much of that needs to be borrowed. Now take that amount and work out what the monthly repayments will be. Most lenders have online calculators to help you. The bigger those repayments, the more sales you need to break even, so don't take this step lightly. Work with an accountant to see what you can realistically afford.

### Operational costs are part of business finance

There are costs to start a business, and then there are costs to run it. You'll need to have enough money in the bank to cover those first weeks or months of operation. There's not much income in those early stages.

When taking a loan, consider taking out enough to cover early operational costs as well. Or, at the very least, make sure you still have enough credit left with the bank to go back to them later.

### How to budget for debt

You don't need to be afraid of debt. Most businesses live with it every day. But stay alert to the effects of interest charges. Work out what interest will add up to every year and put it into your budget as a cost.

Before you take a loan, check out what would happen to your budget if interest rates jumped up a couple of percentage points. How much more would it cost you every year? Could you still afford the repayments?

If you want to have a play with some numbers, try [ASB's loan calculator](#).

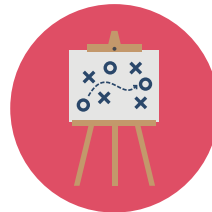
### How to apply for a loan

To apply for a startup business loan from a lender such as a bank, you will need these four things:



#### A good credit score

This shows how reliable you are at paying bills. ([Learn more about credit scores](#)).



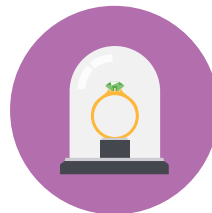
#### A solid business plan

Lenders will be interested to see your sales forecasts, budget, and time to profitability.



#### A shopping list

Say what the loan will be used for (including the cost of each item).



#### Security for the bank

You'll also need to say what the lender can take if you stop making repayments.



*“Business owners are often not great at the numbers. Always have a list of financial goals before you even think about going into business if you want to be a success. Take it seriously to avoid being another statistic.”*

Lisa Martin, [Go Fi8ure](#)  
Xero gold partner

### Alternatives to banks

Wondering how to start a business without a bank loan? We’ve already talked about equity (getting investors), but there are other options, too. Three of the more common are friends-and-family loans, peer-to-peer lending, and crowdfunding.

#### Friends and family loans

A lot of businesses start out with loans from family or friends. These are often agreed on a handshake, with no security put up by the borrower. However, it’s a good idea to write down the details of the loan and have both people sign it so there aren’t any misunderstandings.

The document should say:

- how much has been borrowed
- what it’s for (be specific)
- the interest rate, if any
- when interest will be calculated (monthly, quarterly, or annually)
- when repayments will be due (monthly, quarterly, annually)
- when the loan should be repaid in full

#### Peer-to-peer lending

Some websites introduce people who have spare cash to people who need it. You can send in a pitch saying how much money you need and why. If they agree to post it to their site, someone could back you. People who lend money through these sites are generally taking bigger risks than banks, and so they expect higher returns. As a result, the interest rates can climb. But that’s not always the case if you have a solid proposal. As a bonus, you don’t typically have to offer security.

### Crowdfunding a business

Crowdfunding is a legitimate way to raise money. It can get you access to all types of business finance, such as:

- **Equity**  
You pitch your idea and offer shares in the business.
- **Presales**  
You pitch your idea and ask for pre-orders. You’ll need to declare how many orders are required for you to launch the business and, if you pass that amount, you’re expected to follow through.
- **Debt**  
Much like peer-to-peer lending, you can use crowdfunding sites to pitch an idea and ask the community to loan you the startup money.

Crowdfunding is like a popularity contest. You need to work hard to get noticed. Don’t just post your pitch and hope for it to catch fire. You’ll need a marketing and networking plan.

Learn more about crowdfunding from the team at [Snowball Effect](#).

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# 5

## ***Budgeting and forecasting for small business***

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Starting a business is a big financial decision. Before you get going, you'll want to estimate how much money it will chew through, and how much it will make. Welcome to the world of budgeting and forecasting.

### What is a business budget?

Budgets show how money will come and go from your business over a period of time (usually a year). That money might come in as loans or revenue from sales. It will go out on things like stock, rent, advertising and wages for you and your staff. Most budgets try to keep spending down to less than what's coming in, but that might not be the case at first.

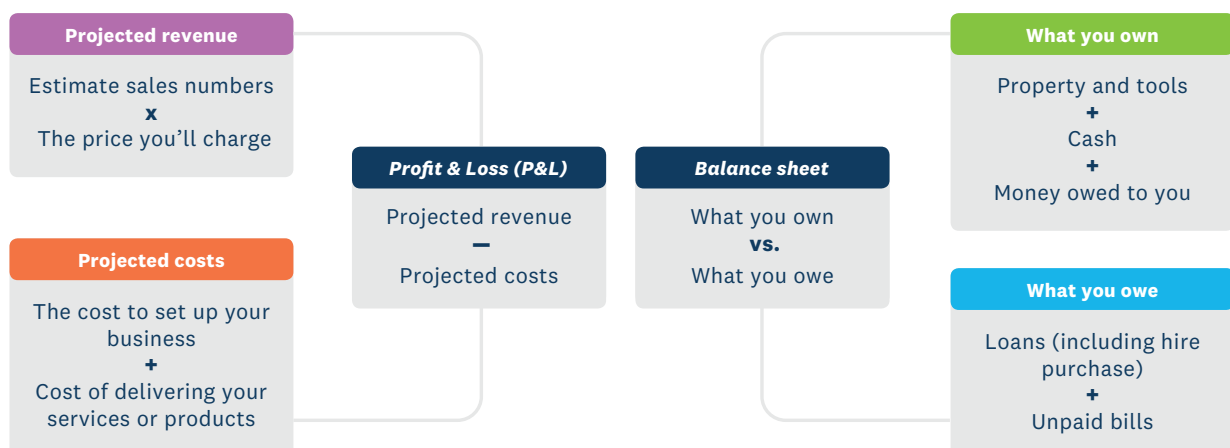
### The purpose of budgeting

Budgets help you plan to make a profit. For example, they'll show:

- how much money you need to start the business
- how many sales you need to cover costs
- how much you can afford to reinvest in the business
- when you can afford to hire help

The main purpose of a budget is to help you see where you're making money, and where you're spending it. Once you know that, you can try to do more of the making and less of the spending.

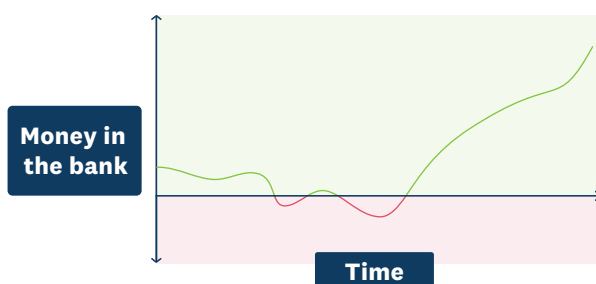
### Components of a budget



### Why a cash flow budget is a good idea

Your profit & loss (P&L) and balance sheet are the two most common components of a budget because they show whether or not you're making money. But a cash flow forecast is also important. It predicts how much money you'll have in the bank at any one time based on when you expect to be paid and when you expect to have to pay bills or staff.

A lot of new businesses run out of money at some point. A cash flow budget will help you see when those dry spells are coming, so you can plan around them. You might delay an order of supplies, hold off on buying new equipment, or organise a loan or line of credit to get you through.



*Even a business that is doing well can run out of money from time to time.*

### How to make a budget

Budgeting gets easier the more you do it. You can use one year's experience to help predict the next. But when you're first starting a business, you have to make a lot of assumptions. The key is to avoid pure guesswork.

#### Projected revenue

You'll need to do some work to:

- [predict how many sales you'll make](#), and
- [decide what price you'll charge](#)

#### Projected costs




Estimate what you'll spend on things like:

- supplies and labour
- work tools such as computers or machinery
- overheads like rent, energy, memberships, or licences

Leave a line for petty cash, to cover costs you didn't think of.

#### P&L budget

Once you've worked out your revenues and costs, bring them together in a P&L budget. Will the business make more money than it spends? That's the aim, of course, but you may not be profitable straight away. If you expect to lose money in your first budget, create a separate document that shows when you'll start turning a profit.

Money in	Money out	Difference
 \$100,000	 \$80,000	 \$20,000 profit

#### What you own (assets)

Include things such as:

- property, work tools, or vehicles
- cash that the business has in the bank
- money the business is owed (such as invoices that haven't been paid yet)

#### What you owe (liabilities)

Count up all the debts you have, such as:

- loans you're repaying
- repayments due on things like vehicles
- bills you haven't paid yet

#### Balance sheet

Some things will appear on both sides of your balance sheet. The portion you own is an asset, and the portion you're repaying is a liability.

When listing the value of your assets, don't just write down what you paid for them and forget about it. Most assets lose value over time. This is called depreciation and it gets reflected on your balance sheet. The good news is that you can claim depreciation as a tax break.

### 7 common budgeting mistakes: what people forget

- 1. Freelancers and contractors**  
You'll probably need help with some tasks. Even a business that has its own staff may need contractors to cover leave or busy periods.
- 2. Transport**  
Whether you're visiting job sites, going to client meetings, or shipping internet orders, you need to factor in transport.
- 3. Interest on loans**  
You don't just need to repay the money you borrowed. You need to pay the interest too. Figure out what that cost is.

4. **Insurance**  
You may need several policies to protect your business and the costs will add up.
5. **Wastage**  
Don't count on things working perfectly. Boxes will be misprinted. Products will be dropped. Contractors will make mistakes. And you'll have to do some jobs over.
6. **Taxes**  
When you first subtract costs from revenue, the difference often looks great – but don't forget the government gets some of that money.
7. **Depreciation**  
Most of the things your business owns will lose value over time. You need to account for that or else you'll get a shock when it comes time to replace them.

### The difference between a budget and a forecast

Your budget is a plan for where you want the business to go. A forecast shows where it is actually going based on what's happened before.

When you first start out, there won't be any difference between your budget and forecast. That's because they'll be built from the same set of estimates and assumptions. But as your business gets going, you'll start collecting real-life information and you'll see how sales and costs are going.

By looking at this data, you'll get a better idea of where the business is headed and you'll modify your predictions. When you do that, you're reforecasting. As time goes on, your forecast and budget will probably start to look different. You'll bring them back together when you do your next budget.

### Budget vs actuals (updating your forecasts)

At the heart of good budgeting and forecasting is the reality check. Every so often, compare your budget and all its assumptions against what's happening.

Some businesses do this every quarter. That may not be realistic given everything else you have going on in your first year of business. But now is when tight budgeting is super important.

At the very least, keep a mental score of budget vs actuals throughout the year. You probably know the numbers so well that you'll notice if things are going off target. If they do – for better or worse – then take the time to make a new forecast.

### Simplify budgeting

Online accounting software makes creating a budget easy. For example, Xero [financial reporting](#) automatically compares budget to actuals and produces up-to-date reports, like a profit and loss or balance sheet, whenever you need them.





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# 6

***Four sales forecasting  
methods for new  
businesses***

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Forecasting sales can seem like guesswork. There are a lot of estimates, and those estimates are often based on assumptions. But you can approach it scientifically. Here's how.

### What is forecasting in business?

Forecasting goes hand-in-hand with budgeting to help you predict the financial outlook of your business. You start by estimating income (sales) and expenses over a period of time, such as six months. That's your starting forecast and you use those numbers to draw up a budget.

As time goes by, you'll see how the business is actually doing and adjust your forecast to be more realistic. If things are going well, your forecast will become more optimistic. If things start slowing down, your forecasts will become more conservative. Your first forecast is probably going to be the hardest to do. While you can get quotes to help estimate costs, predicting sales is far trickier.

### Sales forecasting methods and their flaws

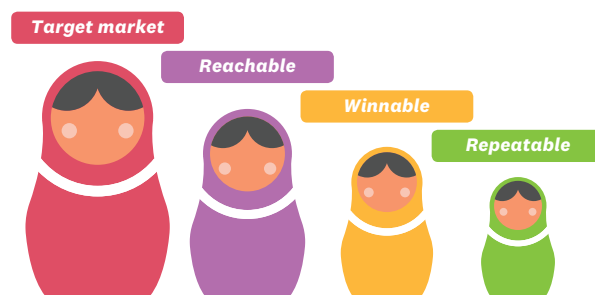
The first thing you need to know about sales forecasts is that they're never going to be right – not 100% anyway. The idea is to make the margin of error as small as possible.

There are dozens of sales forecasting methods, but most of them are built for existing businesses. They require you to have information about past sales. New businesses don't have that luxury. That leaves you with four options – and you should probably use at least two of them.

#### 1. The ballpark method

Start by identifying the total target market and work your way backwards to see how many could become customers. Do this exercise for your first three months, your first six months, and your first year. Check your assumptions with an industry insider or an accountant.

Categorise your most likely customers by age, profession, location and so on. How many people fit the description of your target market? Your marketing will only reach some of that group. And you can only expect to win a portion of those as customers. Whittle the numbers down as realistically as you can.



*How many of the target market can you connect with? And what portion of them will switch to you?*

#### 2. The borrowed-homework method

No matter how wonderful or weird your business is, someone's doing something like it, somewhere. Their business doesn't have to be identical to yours, just similar. Find those people and ask them how sales have gone.

You don't need to pry into their finances, or get exact numbers. Start with broad questions about their business. A lot of owners will open up and share their story.

Don't compare yourself to outliers. If another business went viral for some reason, they're not a good model for your sales forecasts. Virality is not, unfortunately, a strategy.



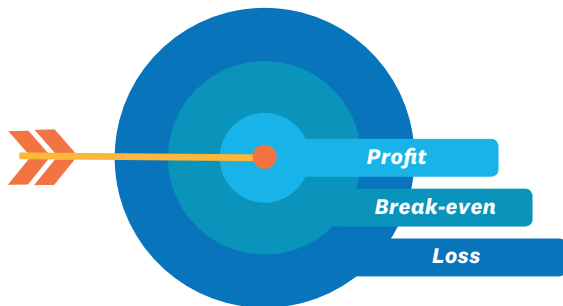
*You can get a lot of useful information by asking simple, unassuming questions.*

### 3. The working-backwards method (setting a sales target)

You could start the forecasting process by seeing how many sales you need to sustain a viable business. This isn't a sales forecast so much as a (minimum) sales figure.

Once you know the minimum your budget will allow, some market research can help you see if that's a realistic sales target. You could start by asking other businesses that serve the same market. Or you could go direct to customers and ask about their buying habits.

If it seems feasible to hit the target, you might make (or buy) the corresponding amount of product and set out to sell it. This method is more likely to be used by someone who's turning a hobby into a business. It allows them to start small, build slowly, and control costs.



*Instead of a sales forecast, some new businesses use their budget to set a minimum sales target.*

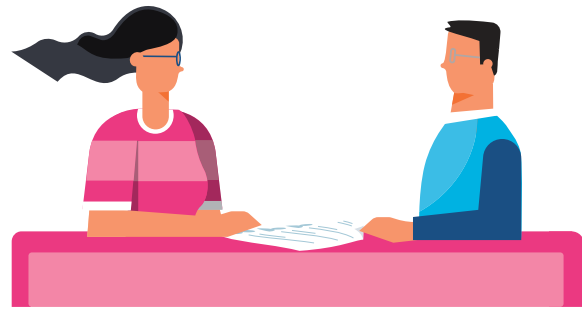
### 4. The ask-an-expert method

You know who's seen a lot of business ideas, budgets and forecasts? Accountants and bookkeepers. Investors, too. Go and speak to them. They love to hear about new business ideas.

Some advisors will give you the first chat for free. But even if they charge you, you'll gain a lot of useful information in one short visit, so you'll get great value. Use one of the sales forecasting methods above to generate your own set of rough numbers and ask them for a sanity check.

Find an accountant or bookkeeper who has clients in your industry. It sometimes helps if they're local too – though that's not always vital.

You can search advisors by industry and location in the [Xero advisor directory](#).



*Do your own numbers before visiting an advisor. It gives them something to react to.*

### Do several sales forecasts when starting a business

You don't know how well your new business will go, so explore a few options. Run a scenario with really soft sales, one with strong results, and another in the middle.

That's how to start a business with confidence, because you'll be prepared for all eventualities. If sales start slow, you'll have a draft budget for that. If business booms, you've already done some thinking about how to meet the demand. Working through the scenarios will teach you a lot. Have fun with them.

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# 7

***Pricing strategies  
and the cost of  
goods sold***

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Setting prices is one of the most important things you'll do as a new business owner. A lot of factors play into the value you put on your products or services. But none is more important than covering your costs.

### The first rule of price setting

Not every sale will make you money. Sometimes you'll sell stock at discount to get rid of it. Or you may have to redo a job for an unhappy client. But as a general rule, you need to get more money out of a sale than you put in to it. To do that, you need to know the cost of the goods sold (also known as cost of sales).

### What is cost of goods sold (or services sold)?

Cost of goods sold, often abbreviated to COGS, tells you what your business spends to deliver products or services to customers. These direct costs are distinct from general operational costs like rent or salaries.

A good way to figure out if something is a COGS is to ask:

- Does this expense occur only when a service or good is sold?
- Does this expense go up and down as sales go up and down?

If either of these answers is "yes", then it's probably a COGS. There are many types of COGS and some are hidden, or hard to estimate. When you think you've counted them all, get an accountant or bookkeeper to check your work. They'll spot things you might have overlooked. And a missed cost can be the difference between profitability and failure.

### Cost-of-goods-sold formula

These formulas give you a basic intro to calculating cost of goods or services. Your business may not face every type of cost identified. In that case, just put \$0.

## COGS

cost-of-goods sold  
=  
cost of wholesale supplies  
+  
transport to you  
+  
manufacture or production  
+  
storage  
+  
distribution to customer

### Example

#### Clothing retailer (bricks & mortar shop)

cost of wholesale item	\$120 per unit
transport from wholesaler	\$2 per unit
manufacture	\$0
storage	\$0
distribution to customer	\$0
<b>COGS =</b>	<b>\$122</b>

Your cost-of-goods-sold formula may get more complex than this but use these simple categories to get started.

## COSS

cost-of-services sold  
=  
cost of sales commissions  
+  
pay for temps and contractors  
+  
transportation and travel  
+  
equipment that is used when  
a service is sold

### Example

#### IT consultancy project

sales commissions	\$0
developer	\$7500
contract tech writer	\$2000
travel (2 flights)	\$300
equipment	\$0
<b>COSS =</b>	<b>\$9800</b>

Remember you're only trying to capture costs that happen when you make a sale. That's why normal salaries and wages aren't included.

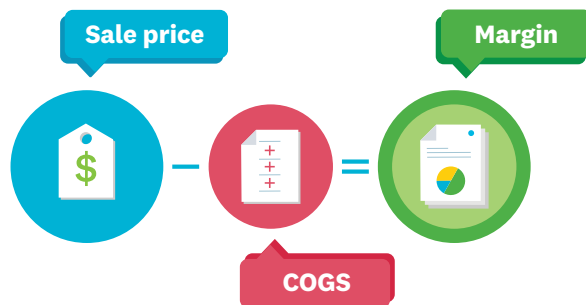
### How to break down shared costs

Some of your costs are shared across jobs or products. For example, you'll probably have combined transport costs for the products in your shop, one energy bill for your entire workshop, or one piece of equipment that is used on most of your projects. You can distribute a shared cost in one of two ways. You can either:

- share it evenly across each product or project or service you sell, or
- divide it in proportion with other inventory costs (so more expensive products or services carry more of the shared cost).

### Working out your margin

Once you know your COGS, you can start thinking about a sell price. The difference between your sales price and COGS is your margin.



Some types of business, like supermarkets, can thrive on a margin of just 5% because they make so many sales. Other businesses, such as restaurants, might need a 100% or 200% margin. Margin isn't profit. You still have to pay for overheads like energy bills and office supplies. You can only bank what's left after you've cleared up those types of expenses.

### Pricing factors to consider

Cost of goods sold tells you what your break-even point would be. It's a huge help to know that when you're starting a business. But there are many other factors that will play a part in how you price your products or services:

- **Value versus cost**  
You've heard people say something is worth more than the sum of its parts. A lot of products and services are like that. If you transform a customer's life or business, then you have a licence to charge them more – even if it didn't cost you much to do it.
- **Supply and demand**  
If no one else does what you do, and you have lots of customers, you can get away with charging more. Just be wary of pushing it too far. People don't like to be price gouged and competition will turn up eventually.

- **Price-taker versus price-maker**

Customers have price expectations around certain types of everyday products, and they won't pay more. If you're selling an everyday product, you'll probably have to match the competition. But if your product or service is unique, you can influence or set the price.

- **Volume versus margin**

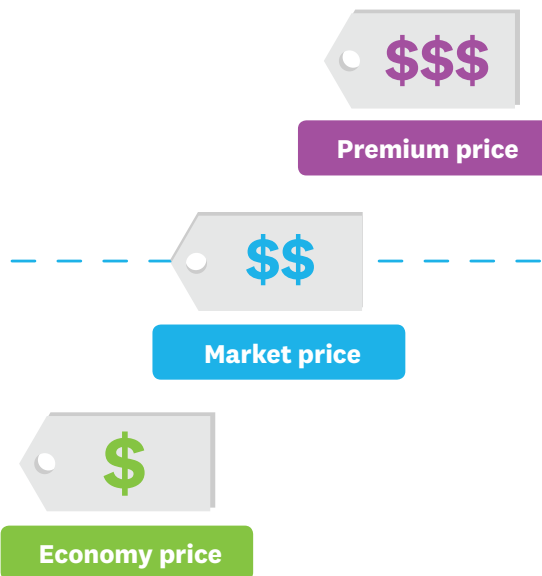
If your business only makes five sales a week, you want a handsome markup each time. If you make 5,000 sales in a day, you're probably happier to live with a thin margin.

### An introduction to pricing methods

There are dozens of pricing methods out there. Many businesses use a mix of them.

#### Market-based pricing strategies

Find out what competitors charge for similar products and services, then decide how you want to compare. Even if you don't use one of these as your primary pricing strategy, your competitors' activity will always be important.



*Your pricing strategy will influence customer expectations, so make sure you can deliver for them.*

- **Go high, with premium pricing**  
You can aim to be a brand of choice that customers accept paying more for. You obviously need to sell top-end products or services to be able to do this
- **Match the market**  
By setting your prices at market level, you're less likely to turn away price-sensitive shoppers. That becomes more important when you're selling functional everyday goods or services.

- **Go low, with economy pricing**

You can aim to always equal or beat your competition on price and become the go-to destination for bargain hunters. Just be aware that you're committing yourself to surviving on thin margins, which can be challenging.

### Cost-plus pricing strategies

After working out your COGS, you can simply add a standard markup to everything you sell.

- **Rule-of-thumb pricing**

After decades of trying different things, many industries have settled on standard markup rates. You could start by adopting the relevant rate for your business.

- **Custom markup**

If your industry doesn't have a standard markup rate, or your market conditions are very different to your competitors, you could pick your own rate. But check your calculations with an accountant before locking it down.

### How to start a business with variable pricing strategies

Your prices don't have to stay constant. In fact a couple of popular pricing strategies for new products and services do just the opposite.

- **Penetration pricing**

Some startup businesses lower their margin to increase sales volume. This can attract a bunch of new customers fast. The trick is to hold onto them when your prices normalise.

- **Price skimming**

When releasing a new product or service, some businesses open with a high price. They believe the early adopters want the product more, so they'll pay more. Once the enthusiasts are tapped out, the business drops prices to pick up the rest of the market.

- **Sweetener deals**

A variation on these themes is to set prices high but offer attractive introductory discounts. It allows you to entice customers with a deal without permanently devaluing your offering in their eyes.

### Price bundling

Many service businesses like to bundle a few things together at a slight discount. Their margins come down but they bring in more revenue as a result. It's like giving a bulk-buying deal. You need to do some market research to see what combination of products or services people like.

### Pricing methods and COGS are key to profitability

Whatever you do, don't take pricing lightly. You have two levers for making money in business – margin and sales volume. They're both affected by price.

Start by working out your COGS. It's imperative you know how much you spend to get a sale. Plus once you know your costs, you can start finding ways to decrease them. That's one of the best ways to make more profit per sale.



*“Avoid a mismatch with what you think a customer will pay for, and what they'll actually pay for. Have an open conversation with prospective customers about what they really want, to make sure there's a real need for your product or service.”*

Paco Nicole, [How To Not Freak Out About Finance](#)  
Xero partner



# 8

## ***Types of business structure***





## Types of business structure

When first thinking about how to start a business, not many people worry about structure. But your business structure can affect how you're treated by the government and by the law. Here are some of the ins and outs.

### Business structures and their effects

The main types of business structure are sole trader, partnership, and company. Your choice will affect your admin burden, tax, legal status, and your ability to raise money by selling shares. This table runs through some of the main differences between a company, a partnership, and a sole trader.

	Easy admin	Simple tax	Legal protection	Sell shares?
Sole trader	👍	👍	🤔	👎
Partnership	👍	👍	🤔	👎
Company	🤔	🤔	👍	👍

- 👍 Yes
- 🤔 Not necessarily
- 👎 No

### If you don't choose a business structure

If you don't choose a structure when starting a business, you'll be assumed to be a sole trader. That's how a lot of people start out. However, it's worth understanding what it means to be a sole trader, and getting your head around the other structures. Speak to a lawyer or accountant before making any changes.

### What is a sole trader?

A sole trader is a single-owner business. It doesn't have to be a single-worker business, so you can hire staff.

#### Advantages of a sole trader

It's easy to set up as a sole trader and tax is simple. You just declare income on your personal tax return.

#### Disadvantages of a sole trader

A sole trader doesn't have any special legal status, which means the owner is personally responsible for what the business does. If the business gets into debt or legal trouble, so does the owner. Your choice of insurance becomes very important.

### What is a partnership?

A partnership is owned by two or more people. There are no rules about how it's divided. One partner can own 99% of the business.

#### Advantages of a partnership

It's easy to set up as a partnership, though it's recommended you have an official letter that sets out the agreement between partners. Tax is simple too. You just declare your share of business income on your personal tax return.

#### Disadvantages of a partnership

If the business gets into financial or legal strife, the partners do too. You could also get into difficulty if one of the other partners does something wrong.

### What's in a partnership agreement

A simple business partnership agreement should:

- state the legal name of the partnership and say what you do
- name the owners and show how many shares each has
- appoint a primary business officer
- say when and how income is distributed among the partners
- include a process for resolving disputes
- identify how bookkeeping and finances will be managed
- outline how the partnership can be wrapped up (and how debts or profits would be distributed)

As you can imagine, even a simple business partnership agreement can get big and complicated. Search the internet for examples or, better still, ask an accountant or lawyer to help.



### What is a company?

A company is legally separate from its owner (or owners), which means you're less exposed to legal or financial issues. A company can be owned by one person or many.

### Advantages of a company

You get some legal and financial protection if things go wrong – your accountant or a lawyer can give you the lowdown. Companies pay a lower tax rate, which can be attractive – although you may be taxed again when you distribute that income to owners, so speak to a tax professional. You can also sell shares in your company to raise money.

### Disadvantages of a company

It will cost you more to operate as a company than as a sole trader or partnership. There's also more admin. You'll need to know how the company will operate before you get started, and you'll have to regularly submit paperwork to the Companies Office.

### What about trusts?

While they're not especially common, some types of businesses set up as trusts. They're more complex than sole trader or partnership structures, but they may be useful for estate planning. Trusts tend to be used by businesses that own a lot of assets, such as farms. Speak to an accountant to see if they're for you.

### You can change your business structure

You're not locked into one structure forever. A lot of businesses start out as sole traders or partnerships and grow into companies. You might change your business structure if you start getting bigger and doing more complex projects which carry a greater financial or legal risk for you.

### Where do franchises fit?

If you buy into a franchise, you don't automatically become part of their business. You form your own business and enter into a deal with the franchisor. You may be able to choose your own business structure, or the franchise agreement may require it to be set up in a specific way, such as a company.

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# 9

***Registering a business  
and other admin tasks***

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After all the excitement of deciding to start a business, you'll have some paperwork to do. These first tasks as a business owner won't be the most fun, but they'll help keep you out of trouble with the law.

### How to register a business with the government

There are a few government departments that need to know about your business:

- **MBIE (Ministry of Business, Innovation and Employment)**  
Once you're officially in business, tell MBIE and they'll issue you with a business number. You may be asked to quote it in your dealings with the government (and others). It will make things faster and easier.
- **IR (Inland Revenue)**  
You may have to pay income tax and GST, so the tax office will need to know about you. They'll provide you with a tax number. It's not all one-way traffic, though. When your business is GST registered, you can claim back GST on business expenses.
- **ACC (Accident Compensation Commission)**  
As a business, you have a workplace – even if it's your home and you're the only worker in it. ACC provides cover for workplace accidents. You need to register and pay a levy.

You'll have some extra formalities to complete if you choose to set your business up as a company.

### How do I register a company?

If you're setting up as a company, you need to register with the [Companies Office](#), which is run by MBIE. This can be quite an involved process. For example you'll need to register shareholders and directors.

You may even need to provide a company constitution. Companies are required to report their activities to the Companies Office every year.

### Do I need to tell any other regulators?

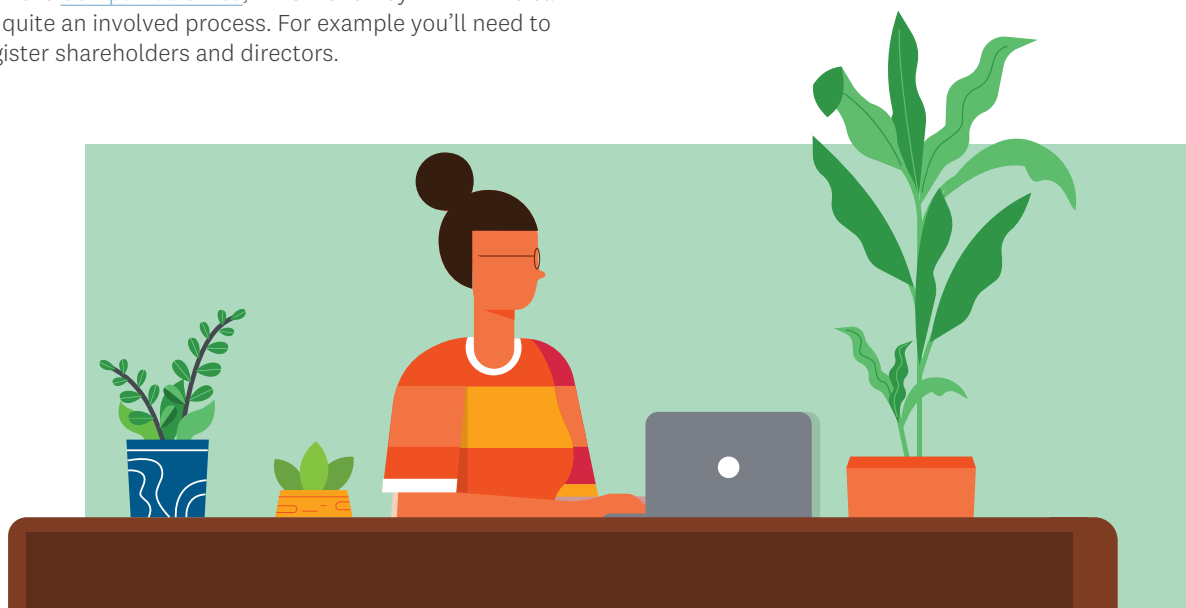
There may be some more to do if you're entering a regulated industry. A caterer, for example, needs to be registered and have a food control plan – and possibly a liquor license. Speak to friends in the industry, or your industry representative body to find out if there are special requirements.

### Should I trademark a business name?

You can legally protect a business name and logo to prevent others from mimicking your identity. This can be a valuable step for businesses that plan to invest a lot in making their brand widely known.

This area of the law can get complicated – especially if you expand into overseas markets and find there's a business there with a similar name. Ask for advice from a legal professional with experience in this area.

At the very least, use [trademark registries](#) (and search engines) to check that no one already has your business name. It's an easy way to save yourself a lot of hassle.



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# 10

***Small business  
insurance***

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It's no fun thinking about a cost like insurance when revenue hasn't even started rolling in. But many lenders, and the government, require you to have some level of insurance.

### Why it's a good idea

The key to good planning is considering all possibilities, including the bad ones. Just as your forecasts will include worst-case scenarios, insurance is a chance to assess and cover your risks. Here are some small business insurance types that might be worth thinking about.

### Types of business insurance

- 1. Property**  
Much like home insurance, there are policies to protect business buildings and their contents from theft, fire and some forms of natural disaster. It's common for a business to have all its assets in one building, so these policies are popular.
- 2. Vehicle**  
Most of us have had motor insurance at some point. It works the same for business vehicles, covering loss and damages due to accidents or theft. It should include care for injuries and some protection against lawsuits by other drivers.
- 3. Public liability**  
This kicks in if your business activities cause loss or damage to other people's property, make someone ill, or injure a member of the public. The injury could happen in your shop (someone slipping over) or at a client's worksite.
- 4. Professional liability**  
If you make a mistake in your work that causes harm to others, you can get into a lot of trouble. Professional liability insurance helps you cover the economic damage. This type of insurance is popular among businesses that give legal, medical, engineering and financial advice.

- 5. Business continuation**

If your business is closed down or slowed down for reasons you can't control, business continuation insurance can be handy. Depending on the policy, it can replace some lost income and provide cash to get you back up to 100% capacity sooner.

- 6. Key person insurance**

A small business can take a hit if an important employee has to stop working. Key man or key person insurance gives you a cash payment to help hire freelancers or recruit a replacement if one of your main staff members goes down with a long-term injury or illness.

- 7. Shareholder protection**

If you've formed a company with someone who dies, shareholder protection gives you the money to buy back their shares. It can be a useful payment for the bereaved family, and it helps avoid a messy situation where their estate gets involved in decision-making.

### Don't put off small business insurance

Small business insurance isn't as much fun as naming your business or lining up your first customers – but make some time to think about it. Don't go to a broker straight away. Speak to other business owners and an accountant first. They'll have great practical advice to help you decide what you need.

You might also want to talk to a lender like [ASB](#) about business insurance.

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11

***Small business  
accounting***

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If you're starting a business, then you'll need to become familiar with at least a few bookkeeping and accounting basics. We talk you through the main tasks, some time-saving tricks, and explain where professionals fit in.

### What is accounting?

Accounting is concerned with tracking money as it comes and goes from a business. Some of the information collected is reported to the government for tax purposes, but most of it is used to help the owner manage the business.

### The three business accounting basics

Accounting is a massive topic, but for most small businesses it boils down to:

1. Keeping records of business transactions (basic bookkeeping)
2. Creating accounting reports to help manage the business
3. Filing business tax returns

### 1. Keeping records of business transactions (bookkeeping)

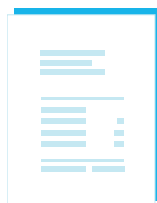
A major goal when starting a new business is to make some money. And you won't know if that's happening unless you have a reliable picture of income versus costs. Good record-keeping will:

- tell you if you're profitable, or at least moving in that direction
- tell you if you're likely to run out of money (even profitable businesses sometimes do)
- make tax season far easier because you'll have all the information required to lodge your tax returns

This record-keeping is commonly referred to as bookkeeping. It's critical to small business accounting, and there's a real science to it.

### How to do bookkeeping for a small business

You need a way to record transactions accurately and, preferably, quickly. Some businesses keep a logbook (a cashbook) for this sort of thing. In it, they write down every sale and every expenditure. But there are less manual options.



### Recording income from invoices

Note everything you send and check bank deposits to see you get the money. OR [use accounting software to send invoices](#) and the rest will happen automatically.



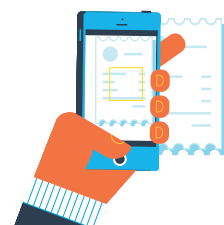
### Recording income at point of sale

Download sales data and transfer it to your accounts. Or [get a POS system](#) that can send the data directly to your accounting software.



### Recording expenses

Use a dedicated bank account for business purchases and transfer bank data to your accounts. Or [get your bank to send this information](#) directly to your accounting software.



### Keeping proof of purchase

Keep your receipts (photograph them on your phone before they're lost) and enter the extra details into your accounts too. Or [get an app](#) which can read pictures of receipts and enter the data for you.



You can base your small business accounting on money received and spent, which is cash accounting. Or, for a more accurate picture of your finances, you can also take into account any money that you're waiting on or planning to spend. This is called accrual accounting.

### Double-checking your numbers

One job that business owners don't see coming when they start out is bank reconciliation. It's where you cross reference your business books against business bank statements to make sure they agree with each other. It can chew through a lot of time, but there are [smart ways to speed up the process](#).

### Keeping the books: the early days

As soon as you start incurring expenses during the set up of your business, you'll need to keep tabs on them. It's simplest to set up a bank account that's just for your business and use it for all your business transactions as far as possible. That way, business costs and income are kept separate from your personal finances.

Make sure you keep receipts and keep track of what each expense was for. One way is to print out bank statements and make a note beside each item. Then, when you've got accounting software set up, all the details will be in one place ready to pull into it.

## 2. Creating accounting reports to help manage the business

Once your business is up and running, you'll get a feel for how things are going. You'll know whether you're busy or not. And you'll have a rough idea of whether costs are higher or lower than you thought. But you'll need some formal reports to confirm what you think.

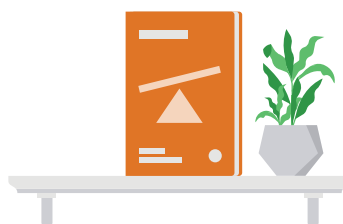
### What are accounting reports?

There are dozens of accounting and management reports you can use to assess the performance of your business. But the most common are:



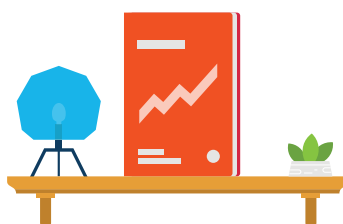
#### P&L (profit and loss) report

A comparison of expenses and income so you can see if you're making money.



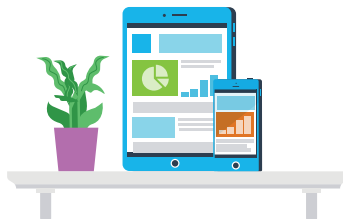
#### Balance sheet

Identifies what the business owns (including cash) versus what it owes.



#### Cash flow report

Shows if you have more or less cash after all the sales, expenses, and lending activity have been boiled down.



#### Business dashboard

A [live online report](#) tracking your choice of business performance metrics.

This information will help you make numerous decisions, like whether or not to borrow more money, whether or not to hire help, which products or services to focus on, and which ones to let go. It always helps to have an accountant involved in these sorts of deliberations.

### Do I need an accountant?

Accountants are often thought of as tax people and, yes, they can certainly help you with taxes. But they do so much more. They can create and interpret accounting reports for you, show you which numbers really matter, and suggest next steps for your business.

And if you think you can't afford one, think again. Many accountants and bookkeepers offer starter services for a really modest flat fee, so you'll know what it's going to cost you every month. Check out these guides on [what an accountant does](#), [when you should hire an accountant](#), and [when you should hire a bookkeeper](#).

### 3. Filing business tax returns

Tax is money that you're legally required to pay the government. It's applied to a lot of the things we buy, it's taken out of people's regular wages each payday, and your business will need to pay tax too.

Business tax comes in many forms and some businesses run into more than others. But three of the most common are:

- **Income tax**  
Where you pay a portion of profits to the government.
- **GST**  
Where you add a tax to your sale prices and later pay that money to the government. This only applies if you're GST registered.
- **Employee-related taxes**  
Where you collect tax from employee pay and send it to the government.

### Lowering your business taxes

Business costs reduce your taxable income and therefore your tax bill, so make sure they're all accounted for. Quality bookkeeping is vital here.

You need some accounting knowledge to work out all your costs. For example you can claim wear and tear on assets, and the diminishing value of intangible assets – but you have to follow specific rules.

### Getting a tax professional

Many new businesses wait till tax season to hire an accountant. But you shouldn't leave it too late – they'll already have a bunch of clients who need their tax done at exactly the same time. And make sure you have comprehensive, well-organised records of income and costs before you go to see them. Otherwise tax season will be gruelling and slow for everybody.



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# 12

***Setting up an  
affordable business  
location***

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Your business needs a base, but how big and fancy does it need to be? Here are some options for services, retail and manufacturing.



### 1. Set up an online business run from home or a co-working space

A lot of goods are ordered online and delivered by courier these days. And many services are delivered through a mix of video conferencing and online collaboration. You may only need a virtual office or online shop.

#### How to start a business without an office

Starting a business doesn't mean owning real estate. A lot of consultants and online retailers work remotely from a virtual office. They communicate and collaborate online. In-person meetings may only happen at the beginning and end of projects, and can take place at someone else's office or at a hired venue.

Here are the basic tools of a virtual office:

- Video conferencing that allows you to have face-to-face meetings online.
- Online documents which can be edited by multiple people at once, from anywhere.
- Chat services that make it easy to send short messages back and forth.
- Apps that make it easy to share work-in-progress and keep client feedback in one place.
- Project management software that shows who's responsible for each step in a piece of work.

There are dozens of apps that can do some of these jobs. Avoid chopping and changing for different clients or it will slow you down. You're better to learn a few core systems really well and ask clients to use your suite of tools.

#### Benefits of working from home

Working from home can be great for small business owners. It saves you paying for a work space and could save you an hour or two a day on commuting. But it's not for everyone. You may go stir crazy being in the same place day and night. Or your home simply may not be a suitable space to work.

#### Two home office rules to live (and work) by

- **Figure out what you need**  
Do you need super-fast internet? Good mobile reception? Space for a desktop computer or printer? A little studio? Storage for physical documents? Whatever your must-haves are, list them out and ensure your home office can provide them.
- **Keep your professional and personal life separate**  
Create your workspace away from the home's communal areas. You don't want to have to pack up so the household can have dinner. Stick to set work hours if you can, otherwise your days could get very long.

#### Tax and the home office

If you use a room in your home for business purposes, you may be able to deduct a portion of your rent or mortgage payments from your income taxes. Check out the [IRD page on doing business from home](#).

#### Try a co-working space

Lots of places will rent you a workspace for short or long stays. Co-working spaces become hubs for startups and freelancers who often end up working together and referring business to their neighbours. They're great for people who love the buzz of an office, and they often come with bookable meeting rooms. A web search will tell you what's available in your area.



### 2. Set up a bricks-and-mortar shop

If you need a place for customers to come to, then you'll need to do some market research to figure out where the opportunities are.

- **Go toward competition or away from it?**  
If you're near competitors, it's easier to take business off them. And your general location will be more of a destination for your target market. But you can also win big by being the only option in a poorly-served area. Do some market research to see how much your target market values convenience versus choice. It can vary from one industry to another.

## Setting up an affordable business location

- **Walk-past versus drive-up**

It can be great when lots of people walk past your shop every day, but not if you sell big TVs and they can't park near you. Do you want pedestrians, cars, couriers, or a bit of everything? Choose a place that is practical and accessible for your customers.



### 3. Set up a space for production or distribution

Manufacturing and logistics can be complex businesses. Extra time spent in transit or unloading a truck can drive your costs up a lot over a year.

- **Make sure you're legal**

Not all areas allow all types of commercial activity. There are a lot of rules about production and manufacturing because they often create noise and traffic. Check that your activity is allowed in the areas you're looking at. And make sure the space will comply with health and safety requirements.

- **Figure out the costs of getting things in and out**

You need to get materials in and products out. Make sure your site is close to important transport routes and can accommodate the vehicles that are likely to visit. Poor loading (or unloading) bays can slow you down and create safety risks.



### 4. Set up an office

If you're starting a business in which people need to meet and work together, then location could require a lot of thought. It can be tricky to strike a balance between convenience and budget.

- **Do you need to be close to clients?**

If you serve a specific industry and they're all located in a particular part of town, then it might make sense to go there. However, face-to-face meetings are becoming less common. Weigh up whether it's good enough to be accessible rather than nearby.

- **Is your location attractive to staff?**

You could get less applicants for vacancies if your office is out of the way. You may also suffer more disruptions from bad traffic, public transport breakdowns, or difficult weather. That may not matter if you don't have a lot of staff, or you allow them the flexibility to work from home occasionally.

You don't have to commit to a long lease straight away. You could start by renting an office in a co-working space.

### Budgeting and business location

Location can affect both the cost of doing business and the amount of revenue you earn. Do some budgeting when you're considering options.

- Real estate agents should be able to tell you the average lease cost per square metre per month for a given neighbourhood. Investigate a few areas to see what's affordable.
- Estimate how certain locations and spaces will affect other costs. Will it cost more to get supplies there? Will a certain building cost you more to heat in winter?
- Work out how location will affect your access to customers. A cheaper location might end up costing you more in lost income. People with experience in your industry will have good advice to help you understand the balance.

### Do you have room for growth?

Most new businesses are on a tight budget, so it's rare to lease more space than you need at the time. But don't forget to factor in growth if that's a goal. Look for places that could take a few extra desks or more equipment. Create some contingency plans. If business booms, where will you base new staff or extra supplies? Although they generally cost more, some landlords offer flexible leases which you can break if you outgrow the building.

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# 13

***How to find  
employees***

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## How to find employees

Most small businesses start out with just one worker – the owner. But you may need extra people right from the start. So where do you begin?

### What kind of skills do you need?

Employment needs can vary a lot. You may need:

- a generalist, for help with a variety of tasks
- someone with certified skills, such as a plumber
- someone with technical skills, such as a developer
- someone with soft skills, such as a sales rep

Every trade and profession has their own expectations about work and pay. Other businesses in your industry are going to be able to tell you a lot about how to find, recruit, and keep the right people.

### Nine ways to find employees

Not that long ago, businesses used to find employees by putting a classified ad in the local paper. It's not so simple anymore. There are dozens of in-person and digital networks to use.

Here are some ways to start your search:



## How to find employees

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If you're trying to get people in your network to help, consider offering a finder's fee. The promise of a little cash bonus can be very motivating, and you only have to pay if you hire their candidate.

### What to pay them

It's never easy to settle on a pay rate. There are industry norms for a lot of jobs, but they can vary from area to area. There are also lots of people out there who are motivated by things other than money. What you can't offer in cash, you could make up for in time off, training and mentoring, or flexible hours that enable a better work-life balance.

Check out our guide, [How much should I pay my employees?](#)

### Payroll expenses: can you afford them?

Before you start recruiting, you need to know if you can afford an employee. Go back to your budget and add in wages or salary as a cost.

If you're not sure what you'd have to pay someone, use a website like [Payscale](#) to get a rough idea. Better still, ask a local business that employs people with the same type of skills.

If your budget won't stretch far enough, consider hiring someone part-time, or taking on contractors. Check our guide to [hiring an independent contractor or employee](#).

### How to start a business when you can't afford the help you need

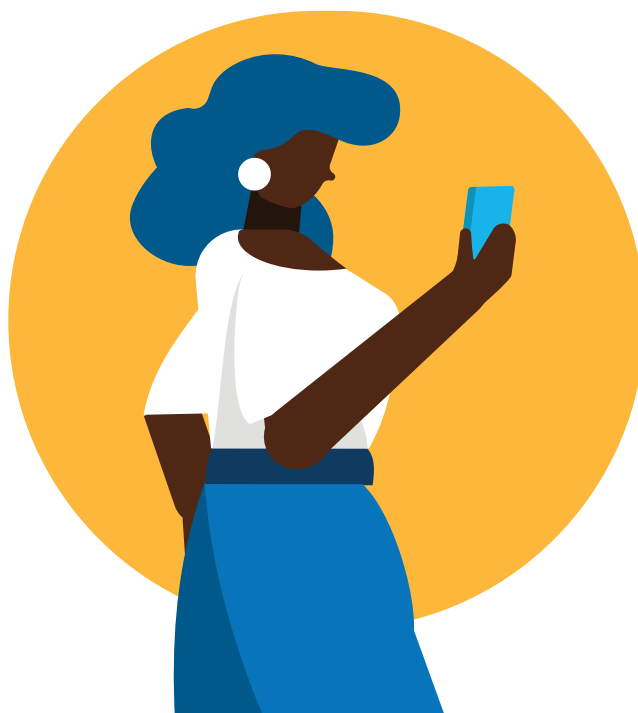
You might have a great idea that you can't execute without a specialist like an engineer or a sales rep. But what if you can't afford their salary or wage?

You could offer a deal where you give them a share of profits, a share in the business, or a deferred salary. Create a legal agreement before entering an arrangement like this. It needs to cover what happens if the relationship breaks down, including who owns the work that's been done and what you would owe them.

### Complying with the law

There are a lot of laws around pay, benefits, leave, health and safety, and more. It's a good idea to check a government site for the latest requirements. Start at [business.govt.nz](#).

You could also search for an accountant or bookkeeper with payroll experience in the [Xero advisor directory](#).





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# 14

***How to create a  
business website***

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Treat your website like an online version of a storefront. It's the first impression for many customers and prospects. Get the basics on how to set up a business website, what to put on it, and how to turn it into a moneymaker.

### The step-by-step guide to creating a business website

#### 1. Register a web address (also called a domain name or URL)

Several companies can register a domain name for you (and they often also provide hosting). Search for domain registries online and visit their websites. Use their tools to enter your preferred web addresses and see if they're taken. When you find one that's not, claim it.

#### 2. Get someone to host your site

Websites are stored on servers, called hosts. You'll be able to find a host for a modest annual fee. Your host will also sell extra products to help protect your site against viruses and malware, and they may sell templates for building your site.

#### 3. Choose the right plan for your website

Before signing a contract with your host, check you have the right plan. You can start off with basic web hosting, but there may be extra costs if you want to add several email addresses or an online shop.

#### 4. Pick a template (or get a custom design)

You can have a website designed from scratch but many businesses use pre-designed templates these days. There are thousands out there. You can simply drop your text and images straight in, or get a developer to tweak the template to your liking.

#### 5. Get a logo

A quality, well-designed logo can make you look incredibly professional. If you don't have a logo, check out design services like [Tailor Brands](#), [Fiverr.com](#) and [99Designs.com](#). Ensure your choice of colours and typeface fit your brand. You want a consistent theme across all of your stuff.

#### 6. Add your content

You needn't blindly follow what your competitors are doing, but check them out. If something's working for them, learn from it. Then focus on the ways in which you can be fresh and different.

#### 7. Test your website

Visit your site from different devices and browsers. Make sure it looks and feels practically the same on all of them. Ask friends and family for their honest opinion too.

#### 8. Hit publish

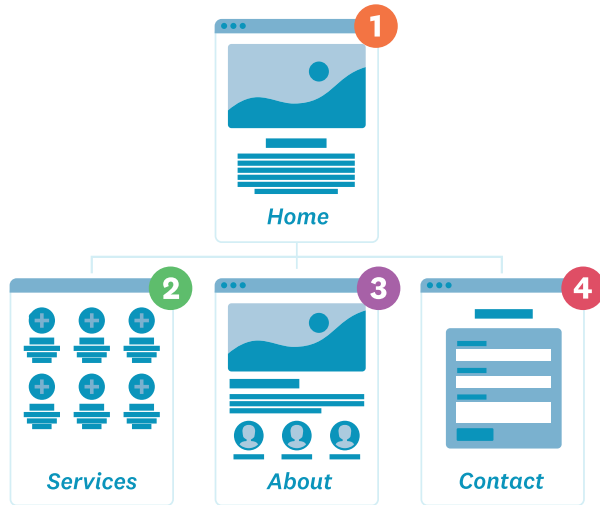
Make your site live, and tell everyone about it. Email customers and contacts. See if there are any local directories your site could be added to. Ask relevant business associates to link to you.

#### 9. Set review and refresh dates

Schedule review dates in your calendar to update and edit your site. Keep the information accurate. If you mention topical issues, make sure they're not dating badly.

### What goes on a website?

Websites typically have four types of pages:



Example of a basic website sitemap

- 1. Home page**  
Include your business name and logo plus a broad description of what you do, and why. Keep this short for now. The specific details can live on other pages. Let your personality and passion show.
- 2. Products and services**  
Tell visitors what they can buy from you, with a few lines about each product or service. List prices for products. If you're in services, you'll have to make a call on whether or not you reveal your fees.
- 3. About**  
Give a little background about yourself and list any organisational or professional memberships you have. Tell your story but focus less on what happened and more on why. You want your passion to shine through. This is also a good place for customer testimonials.
- 4. Contact us**  
Provide your email and business postal address, and include links to your social media accounts. A lot of people still like to see a phone number too. If you have a physical address, [embed a Google map](#). And list your business hours.

### Web writing tips

- Write less – people only read about 30% of the words on a page anyway.
- Use descriptive headings – 80% of people scan for the info they need, so make it easy.
- Make it clean – it's harder (and slower) to read online so use bigger fonts and leave plenty of empty space.

### Avoid the template trap

When choosing an off-the-shelf website template, you naturally expect your site will end up looking like the sample in the gallery. But that will only happen if your headers and text blocks are roughly the same length as theirs. You need to write to the template you choose, or else it will start to look odd.

### Not everything on your site should sell

When creating a website, think beyond what you want from your visitors. Ask yourself what questions they're probably struggling with right now. Can you answer those for them? Here's why it's wise to give away useful information or advice:

- **Attract people to your site**  
When people search a topic online, your best articles may start to show up as recommended reading. And if that content is really useful, readers will start to share it with their contacts.
- **Win prospects over**  
People love getting tips and tricks. If they pick up some valuable information on your site, they're going to feel good about doing business with you.
- **Hold onto customers**  
When you anticipate a customer's next question and answer it, customers feel like you get them. It's a great way to build rapport and loyalty.

### Stay focused on your brand

When writing content for your website, it's invaluable to have something that can help focus your thoughts. Jot down the values that are most important to your brand and turn them into a word cloud. Sites like [Worditout](#) let you do it for free. Print it and post it on the wall where you're writing.



Stay centred on your brand values when you sit down to write your web content.

### Eight ways to ensure your website is high quality

When starting a business, make sure your website is:

- 1. Relevant**  
Understand who you're talking to (your target market) and what they're looking for. Create your site for those people. You want them to know they've found the right place as soon as they land.
- 2. Professional looking**  
Treat your site like the first impression it is. Use quality images, well-written text and modern design. If budget is an issue, make fewer pages to start with. Focus on quality.
- 3. Trustworthy**  
Include an 'About' page with full contact details, a little of your backstory, and some photos that put a human face on the business.
- 4. Easy to find**  
Build a site that shows up when locals search for your types of products and services online. Search engine optimisation (SEO) can help you. The basics are not that hard to master. Check out our guide to [SEO for small business](#).
- 5. Connected to your social media**  
Some people who find your site may prefer to connect on social media. Make it easy for them to do that. It's a great way to show them more of your brand's personality.
- 6. Bringing in feedback and testimonials**  
Nothing beats real-life testimonials from people who have used your service or product, so invite customers to send reviews. Be prepared to take the good with the bad.
- 7. Always up to date**  
Out-of-date information isn't a good look. It gives the impression you don't care and makes the site less credible. Take down old promos and avoid putting dates in your text unless you have to.
- 8. Easy to buy from**  
If you're selling through your site, make it simple and secure. Give customers an easy-to-use shopping cart, make delivery charges clear before they get to checkout, and offer a variety of payment methods such as debit card, credit card, and PayPal.

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# 15

***How to promote  
your business***

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“Build it and they will come” just doesn’t ring true in business. You’ll need a sales and marketing strategy to bring customers to you. There are hundreds of things you could do. The trick is to pick the right ones.

### Strategy vs tactics in marketing

It’s important to get strategies and tactics the right way around. Your strategy is the master plan that guides all your marketing activity. Tactics are the activity. They’re the things that people see like ads, emails, videos, sales promotions.

### Start with a strategy

It’s important to come up with your strategy first. Go back to your [business plan](#). Look at the [SWOT analysis](#) and your market research, and boil that down to three core things:



### Marketing ideas to promote your business

Once you know who you’re talking to, where you need to reach them, and what you need to say, you can make smart marketing choices. Here are just some of the things you could do – but don’t spread yourself too thin.

Try a couple at a time and see what works. If the results aren’t there, experiment with something else. You’re probably already wondering how you’ll start a business with hardly any money; the last thing you need is to waste cash on ineffective marketing. You’re better off doing just a few things really well.

#### Create a free listing with Google

Set yourself up at [Google My Business](#) to improve results when people Google businesses like yours.

#### Get active on social media

You can try to build a following by putting out interesting content, or you can pay to push ads and posts to specific audiences. But be careful not to spam.

#### Use SEO to attract prospects to your site

To build a website that shows up when people search for the products or services you sell, you’ll need to use the right keywords and get other sites to link back to you. But the payoff can be big. Find out more in our [guide to SEO for small business](#).

#### Share your expertise

Create articles, videos or podcasts with useful or interesting information and use them to bring people to your site.

#### Offer tutorials or webinars

Offer to guide prospects through an issue or a problem for free. You can do it in person, on a video call, or via a webinar.

#### Send email

Gather the email addresses of customers and prospects and send them useful news. Be careful not to overdo it and, if you’re sending emails to Europe, make sure you follow [GDPR regulations](#).

#### Ask for referrals or testimonials from happy customers

Positive reviews from real people count for a lot. A [study of more than 1,000 consumers](#) found that three out of four consumers trust a business more after reading a positive review.

#### Giveaways

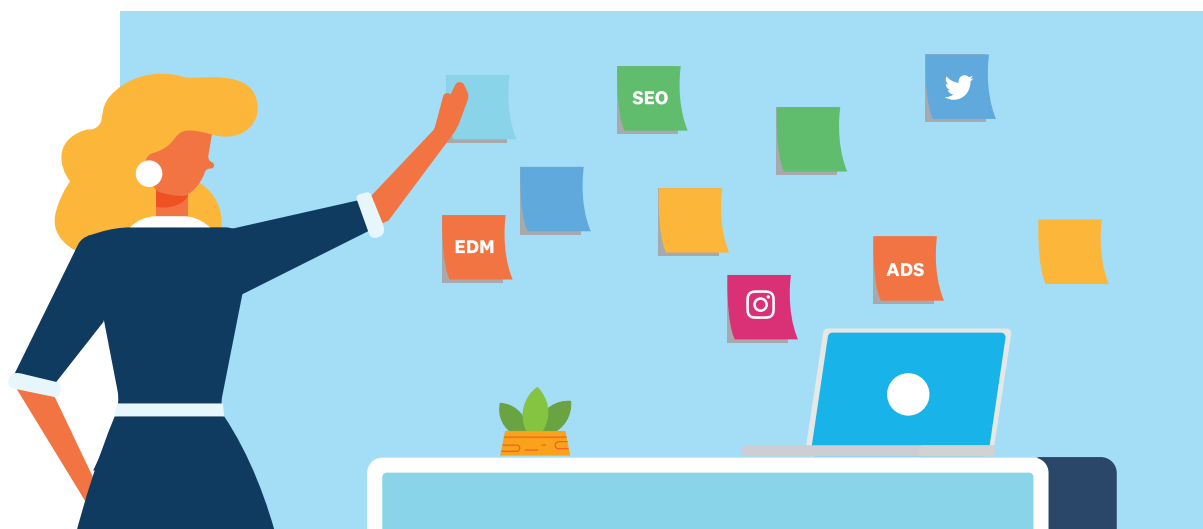
Let customers see how good your product or service is by giving away free samples. If you’re a consultant, make up a nice certificate for one hour of your time for free.

#### Get networking

Interact with prospects, in person or online. Don’t forget to put time into old relationships too. There may already be people in your network who can help build your business.

## How to promote your business

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### Publicity

If you have a cool story, see if a local paper, radio station, or trade magazine wants to cover it. A public relations (PR) agency or freelancer could help.

### Advertising

Ads can be anything from a poster on a bus stop, to a video on social media. Choose the right place for your audience and keep your message as simple as possible.

### Flyers

Stick them in residential mailboxes or hand them out in the street to promote a local business. It often helps to include a special offer, such as a discount or two-for-one.

### Put in the time to promote your business

Schedule at least an hour a day on promotional activities. Spend some of that time reviewing what's working and what's not.

There's nothing wrong with trying something different and finding that it didn't work. But it's important to cut your losses when something isn't performing well.

And don't forget to steer some of your marketing effort toward your existing customers. It's a lot easier to keep a customer than to attract a new one. But you have to show them some love. Demonstrate your appreciation for their business from time to time.

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# 16

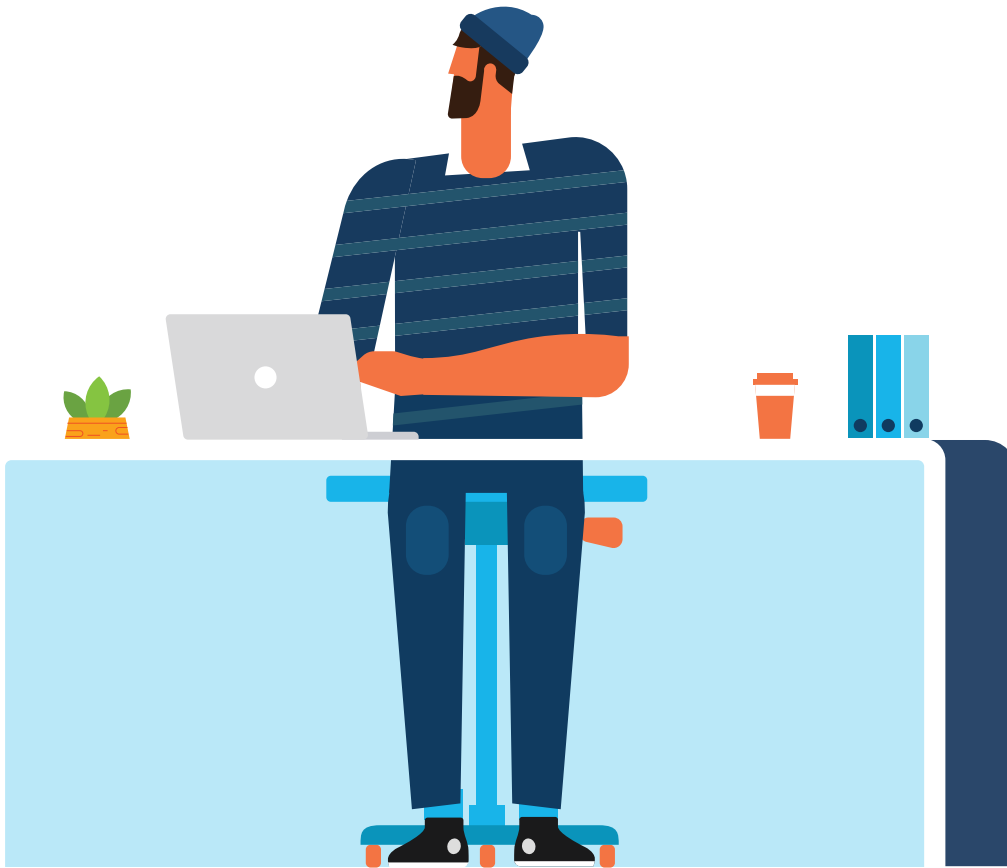
***Where to next?  
Tools and guides  
by Xero***

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## Where to next?

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Now you know how to start a business, but it can be a stretch to keep on top of it all. Software can take some of the pressure off. You'll be surprised at the number of admin tasks that can be automated. Let Xero help.

### Handy tips and tricks for your business

Xero has a host of useful guides on small business topics like marketing, invoicing, payroll, bookkeeping and more. Take a look at some of them for yourself.

[Browse small business guides](#)

- [Xero education courses and webinars](#)
- [Xero customer stories](#)

[Check out our ecosystem of connected apps](#)

### Discover more about Xero

At its heart, Xero is accounting software. It will help you keep on top of finances and payroll (if you're hiring). But it also connects with other business apps to support sales, marketing, inventory management, and more.

If you're keen to learn more about Xero, check out these resources:

- [Xero features](#)
- [Xero TV short videos](#)

### Talk to the experts

When you're planning your business, talk to the experts early. They can help you build your plan, find finance, and get things moving.

For bookkeeping and accounting, we can help you find an [advisor](#). For finance, check out what [ASB can do to help](#).

*This guide is intended as general information only. Always check with a professional for advice.*



Beautiful business

[xero.com](https://xero.com)