

# Running a **business**

**This chapter looks at how to run a business on a daily basis, including:**

**Marketing**

**Customer Service**

**Employing and managing staff**

**Taxation**

**Record keeping**

**Managing creditors and debtors.**

If in doubt, contact the nearest Business Advisory Service for help on these issues.



## Marketing

To do well, get to know what your customers want and how to attract them to your business. Marketing is about finding out who customers are, their needs, wants and interests, and working out how to reach them. It is not just selling or advertising.

Before doing any marketing, get to know everything about your own product or service, and what it offers to customers. This process began with questionnaires in Appendix 1b) and 1c).

### Here are some tips to attract customers:

Take the time to think about and plan how to attract customers.

Learn about the needs and interests of customers, and how they fit in with the product or service of the business. Consider how your product or service is good for the customers and meets their needs. Ask yourself: Why should a customer come to my business? Talk with friends and family about it. Think about current and potential customers.

Collect information about the market you trade in.

### Now research the following:

- Businesses selling the same or similar products or services as you do. Local price levels. Whether your industry is growing, declining or changing
- How people currently buy your type of product or service (for example, at a shop, by telephone or over the internet)
- The area you hope to cover (local, regional, the entire State, national or international).

## Find a place in the market

Consider where the business fits in the market. Define the unique quality of the product or service it provides. If it lacks an original feature, try to make it different, so people come to you first. For example, if most didgeridoo sellers simply sell didgeridoos, someone who offers lessons in making and playing the instrument is more exciting to customers.

If you are the first, or among the first, to offer something different, people are likely to think of your business when they are looking for a particular product or service.

### Decide on the general marketing direction

You should now be able to work out the general theme of your marketing, such as the main selling point (for example, the didgeridoo seller who teaches customers how to play properly). Consider how the marketing strategy helps achieve your business goals.

### Work out the marketing strategy details

The marketing strategy can begin when the general direction of the marketing plan is set.

#### Consider the four Ps:

- **Price** – how to set prices; whether to offer different prices to cash and credit card customers, whether to offer discounts. (For help, see *Pricing and Costing: managing for a profitable business* on the Small Business Website [www.smallbiz.nsw.gov.au](http://www.smallbiz.nsw.gov.au) Click on Starting in Business, then Finance).
- **Promotion** – how to promote the business and its product or service. (See the next section on advertising and promotion).
- **Product** – how your product or service differs from competitors (for example, additional features or extensive after-sales service).

- **Place** – how to get the product or service to customers. Consider the location of your retail outlet, if you have one, and whether or not to use agents, distributors or the internet to sell the products or services. Think about selling the product or service through another business. For example, supplying an artefact shop or providing your service to another business which would complement or assist yours.

### **Include money for marketing in the budget**

Put aside enough money for marketing. Be realistic about what's affordable. Remember: if customers don't know about your product or service, they can't buy.

### **Monitor the marketing investment**

Check marketing activities every month to make sure they are worth the effort and expense. For example, how many sales or phone calls are coming in because of the marketing? When talking to customers, ask how they found out about the product or service. If the marketing is different or special, work out if it leads to more sales or phone calls. Ask customers why they chose your business over others.

Evaluate the marketing strategy and make any necessary changes to ensure it works satisfactorily.

## **Advertising and promotion**

Advertising and promotion is an important part of marketing. It lets people know about the benefits of your product or service. Small businesses usually only have limited money and must plan promotions carefully.

**There are a number of ways to promote the business's product or service. Use a mixture of these to reach potential customers. This is known as the 'promotional mix' and can include the following elements:**

- **Advertising** – Paid advertising in the media such as radio, television, newspapers, magazines and websites. However, be certain you want to spend money this way. Find out about the customers you want to attract. Make sure the advertisements are really aimed at them.
- **An entry** – in the Yellow Pages telephone directory or other directories are a good way to advertise a business.
- **Publicity** – This includes unpaid messages in newspapers, magazines, television and radio. It can take the form of news stories written by journalists, which mention your business, product or service. A good example is having a tourism business featured on a lifestyle or holiday travel program.
- **The internet** – A well-designed website can reach a large number of potential and existing customers. Make sure the site is listed on search engines and in the right directories.
- **Sales promotions** – These include all types of specials, giveaways, free samples, point-of-sale displays and events. They can include selling products or services through another business. They are designed to attract attention to a business and increase sales.
- **Direct mail** – Send brochures or letters through conventional mail or email to current and potential customers. Be aware of obligations under privacy and SPAM legislation (SPAM is unsolicited or unwanted electronic mail). Information about the Federal Privacy Act is available from the Office of the Federal Privacy Commissioner at [www.privacy.gov.au](http://www.privacy.gov.au) and about NSW privacy legislation from Privacy NSW at [www.lawlink.nsw.gov.au/privacynsw](http://www.lawlink.nsw.gov.au/privacynsw)
- **Personal selling** – Direct one-to-one selling to customers by sales representatives, telemarketers or yourself might work. It depends on the product or service – and the market.

## Customer service

An important way to build and maintain a successful business is by providing customers with top-quality service. This helps the business stand out.

### What is customer service?

Customer service is giving customers what they want.

Most customers do not buy simply on price, but on the quality of the service they get. Good quality service can also result in happy customers who tell others about your business. Bad customer service can cost you both existing and potential clients.

To provide good customer service, get to know clients and their views. This can be done by asking what they think of the product or service, either face to face, or over the phone, or by email or letter. Be sure to welcome the comments – good or bad – and fix problems.

### Areas where good service is important:

**Product and service information** – Provide correct, clear and direct information to customers about products and services, terms of sale, guarantees, after-sales service and all other aspects of the business.

**Counter and face-to-face service** – Make sure staff are fully trained. Ensure they are neat and tidy, know about the business and its products or services, and are friendly.

**Telephone service** – Make certain the business can be contacted by telephone. Answer enquiries and messages quickly (the same day if possible).

**Processing orders** – Simplify the ordering of goods and services. Explain all aspects of placing an order to a customer.

**Follow up** – Be quick with extra information about orders, quotes and progress reports, and the fixing of problems.

### Billing and managing payments –

Bills must be clear and easy to understand. Keep a well managed, accurate, up-to-date billing system.

### Stay in touch with customers –

Customer visits and follow-up calls or emails are important in making sure customers get a good impression of the business.

### Handling complaints –

Respond to, and fix, problems quickly. Always listen. Report what is being done to fix the problem. Track complaints and identify causes. If possible, try to make sure the same problem does not happen again.

### Putting service at the top of the list –

Make sure everyone understands and knows how to give good service. It is up to you to set a good example to staff, and reward them for providing quality service.

The *Customer Service Guide* produced by the Office of Fair Trading gives a good description of these and other customer service issues. It's available at [www.fairtrading.nsw.gov.au](http://www.fairtrading.nsw.gov.au) or by calling 13 32 20.

## Employing and managing staff

Good staff who are well treated and know what they are doing can help a business grow.

Employees let you have more time off to develop skills and work on building the business. Staff can keep the business going if you are sick or need a holiday.

- Be sure you can afford an employee.
- Be a good boss.
- Think about what you want staff to do.
- Will work be regular or part-time?
- What are the necessary skills?
- Would a sub-contractor be less expensive?

## Choosing the right person

When it's time to employ staff, choose the right person. Think before employing a friend or a family member – imagine what might happen if things do not work out. If you employ someone you know, make sure you discuss this in detail.

### The selection process includes:

- Putting together a job description which includes necessary skills and experience
- Advertising the job where it will catch attention. For example, in local newspapers, at a Job Network office or at a private employment agency
- Holding an interview, in which all the candidates are asked the same questions. Questions let the candidates explain their skills, experience and why they should get the job
- Check references. Call the people who wrote the references, and double-check how the candidate performed at the previous job.

## Starting and training new employees

### Introduce a new employee to the business and the job by:

- Explaining responsibilities and what's expected
- Describe what the business is about. The important things you want the business to achieve and how it operates
- Show the employee around the workplace
- Explain work conditions and how to operate equipment and be safe in the workplace.

A range of training programs for indigenous people and businesses are offered through various State and Federal agencies.

Listen to employees, customers or suppliers, especially if they mention problems with the business, or if they are unhappy about the way things are done. Happy staff will go the extra mile.

## Industrial awards

Industrial awards protect the majority of employees in Australia. Awards are legal documents which set out the working conditions for all employees in a particular industry or occupation.

### The awards cover:

- Minimum wages
- Hours of work
- Holiday entitlements (both annual holidays and long service leave)
- Minimum periods of notice and payments when a business can no longer employ someone.

Check which industrial award covers your industry and the positions of employees.

For NSW awards, contact the Office of Industrial Relations Award Enquiry Service on 13 16 28 or go to the website [www.industrialrelations.nsw.gov.au](http://www.industrialrelations.nsw.gov.au)

For Federal awards, contact the Workplace Infoline on 1300 363 264 or check the website [www.workplace.gov.au](http://www.workplace.gov.au)

## Workplace agreements

A workplace agreement is a separate contract an employer can work out with employees. It sets out the minimum employment conditions for individuals or groups of workers. Unlike most awards, it only applies to a particular business or project.

In NSW, workplace agreements are called Enterprise Agreements. The NSW Industrial Relations Commission must approve them.

### There are two main types of Federal workplace agreements:

- **Certified Agreements** which are made between an employer and a group of employees, or a union acting for the employees. Certified Agreements must be approved by the majority of employees in the workplace involved, as well as by the Australian Industrial Relations Commission (AIRC)
- **Australian Workplace Agreements (AWAs)** which are made between an employer and an individual employee. The Office of the Employment Advocate must approve AWAs.

New South Wales businesses can only make Federal workplace agreements if they are registered companies.

For NSW Enterprise Agreements, contact the NSW Office of Industrial Relations on 13 16 28 or check the website [www.industrialrelations.nsw.gov.au](http://www.industrialrelations.nsw.gov.au)

For Federal workplace agreements, contact the Workplace Infoline on 1300 363 264 or check the website [www.workplace.gov.au](http://www.workplace.gov.au)

## Employer obligations

Employers must be familiar with the law. Several basic elements of employment must be acknowledged when employing people:

### Occupational Health and Safety –

Under the NSW Occupational Health and Safety (OHS) legislation, a business must be safe. A Small Business Safety Starter Kit is available from WorkCover to help understand what must be done to ensure this. The kit is available from the WorkCover Publications Hotline on 1300 799 003 or from the WorkCover website [www.workcover.nsw.gov.au](http://www.workcover.nsw.gov.au)

**Workers Compensation** – It is the law to have workers compensation insurance. This means if any member of staff is injured doing a work-related task, the employer must have insurance to cover medical treatment and other contingencies. For further information on workers compensation and injury issues, contact WorkCover on 13 10 50 or visit the website [www.workcover.nsw.gov.au](http://www.workcover.nsw.gov.au)

### Taxation and record keeping –

Employers must know what needs to be done under Australian and NSW tax laws. Tax issues are covered in detail in the next section of the Guide.

**Superannuation** – Employers are required to make superannuation contributions for all employees aged between 18 and 70. The contributions are currently set at nine per cent of the employee's salary or wage. For further information about superannuation, call the Superannuation Guarantee Helpline at the Australian Taxation Office on 13 10 20, or visit the website [www.ato.gov.au/super](http://www.ato.gov.au/super)

The Department of State and Regional Development has developed a workshop called *Becoming an employer for the first time*. This workshop covers most aspects of this process. Phone the Business Advisory Service on 1300 650 058 for dates of the next workshop.

## Taxation

A small business must pay tax to the Australian Taxation Office (ATO). This includes income tax and the Goods and Services Tax (GST). In NSW, the Office of State Revenue administers the State taxes affecting small businesses such as payroll tax, land tax and stamp duties. It is mandatory to know what taxes must be paid.

### Federal taxes

What follows are some of the main Federal taxation matters a small business must understand.

### Australian Business Number

A small business owner must apply for an Australian Business Number (ABN) before starting a business. The ABN is a special identification number used when dealing with the Australian Taxation Office, other government departments and agencies, and most other businesses. It does not replace the Tax File Number.

### Register for an ABN:

- On the internet through either the Australian Business Register at [www.abr.gov.au](http://www.abr.gov.au) or the Business Entry Point at [www.business.gov.au](http://www.business.gov.au)

- On an application form, available by phoning the ATO on 13 28 66. It can be lodged personally, or
- Through a tax agent, who will lodge the application. Fees apply for this service.

When making a payment to a business which has not quoted an ABN, it is recommended that an amount – generally 48.5 per cent – be kept back from the payment and sent to the ATO. Put the ABN on business stationery, especially invoices. Failure to do so might mean other businesses will hold back 48.5 per cent from any payment to you.

Talk to the ATO or a tax accountant about how to deal with this or any other tax matter.

### **Goods and Services Tax**

The Goods and Services Tax (GST) is levied at the rate of 10 per cent, and most businesses charge GST to customers and send it to the ATO. While businesses charge GST on sales, they can receive credits for any GST paid on purchases made for the business (for example, supplies or services), including items such as marketing. The amount of GST a business pays the ATO is the difference between what it collects in its sales, and what it has spent in business costs. A simple way of looking at it is:

$$\text{GST payable to ATO} = (\text{GST received in sales from customer}) - (\text{GST paid in business costs})$$

All businesses with an annual turnover of \$75,000 or more must be registered for GST. Registration for the GST is on the same form as the ABN.

It is mandatory to lodge a Business Activity Statement (BAS) to report the amount of GST collected on sales, as well as the GST paid on business costs.

For more information about how the GST works, talk to the ATO or a tax accountant.

### **Tax File Number**

A sole trader uses the Tax File Number (TFN) in dealings with the ATO. However, a partnership, company or trust, needs a separate TFN for the business. Registration for the TFN is on the same form as the ABN and the GST.

### **Pay As You Go**

**Pay As You Go (PAYG) is another tax system. It applies:**

- When tax is paid on the income of the business
- When money is ‘held back’ from certain payments. This includes employees’ wages and salaries, and payments to businesses without ABNs. The amount is sent to the ATO. Registration for the PAYG tax system is mandatory before making these payments. A business registers with the Tax Office for PAYG. Registration for PAYG is on the same form as the ABN, TFN and the GST.

### **Fringe Benefits Tax**

Fringe Benefits Tax (FBT) is paid on certain extras employers provide to their employees or employees’ associates (often family members) instead of, or in addition to, wages and salaries. The tax is based on the value of benefits provided.

**Fringe benefits affected by the FBT include:**

- Allowing an employee to use a work-registered car for private purposes
- Providing accommodation for an employee, at no charge or a reduced rate
- Giving an employee a cheap loan through the business
- Paying an employee’s private health insurance costs
- Providing an entertainment allowance to an employee using money from the business.

Before starting the business, consider whether these extras will be provided to employees. If so, register for Fringe Benefits Tax. Contact the ATO on 13 28 66 or go to the website [www.ato.gov.au](http://www.ato.gov.au)

### **Capital Gains Tax**

Capital Gains Tax (CGT) is paid on the profit made from the sale of a business, or from an increase in the value of an investment. A loss can be incurred if a business is sold for less than its purchase price. Capital Gains Tax can also apply to assets given away.

Take advice from the ATO or an accountant on these matters.

## ATO educational initiatives

The Australian Taxation Office offers a range of helpful publications and educational services to assist businesses to understand their taxation obligations. These include:

### Tax Basics seminars

These free seminars give people starting out in business a basic understanding of small business tax issues and obligations.

For more details, contact the nearest Tax Basics co-ordinator on 1300 661 104 or [www.ato.gov.au/seminarsNSW](http://www.ato.gov.au/seminarsNSW)

### The New Business Service

The New Business Service provides free educational visits by ATO field officers to new businesses. The field officers also talk with business owners about tax obligations.

To arrange a New Business Service visit, call the ATO on 13 28 66.

Further information on Federal taxation issues concerning small business is available on the ATO's website [www.ato.gov.au](http://www.ato.gov.au)

## State taxes

It is sensible to know about the following NSW State taxes which may apply to a business at different times. The Office of State Revenue (OSR) collects these taxes.

### Stamp Duty

**Stamp duty is payable on various business transactions, such as:**

- Purchasing a business, including plant and equipment, and intellectual property (copyrights, etc)
- Purchasing or leasing business premises
- Getting a mortgage
- Hiring goods.

Stamp duty must be paid within three months of the transaction.

### Payroll Tax

In NSW, payroll tax must be paid if the total yearly wages and salaries bill of a business is more than \$623,000. The amount of tax payable is calculated as a percentage of the payroll over \$623,000. However, over 90 per cent of businesses in the State do not have to pay payroll tax.

### Land Tax

In NSW, land tax is paid on land used for commercial purposes. The annual land tax rate is 0.4 per cent for land worth \$400,000 or less which is not a primary place of residence. For land valued between \$400,000 and \$500,000, the rate is 0.6 per cent. Land valued above \$500,000 is taxed at 1.4 per cent per annum.

## OSR educational initiatives

The Office of State Revenue holds seminars, information sessions and workshops about these taxes.

Further information on NSW State taxes and the events organised by OSR can be obtained from the website at [www.osr.nsw.gov.au](http://www.osr.nsw.gov.au) – click on Free Seminars, or call (02) 9689 6200.

An accountant can help with taxation matters.

## Record keeping

The law may require record keeping. However, keeping good quality records of business transactions can help with business management. Good records also help with information on business expenses (money coming in and going out). Some expenses can be claimed as tax deductions. Record keeping makes good business sense.

It is easy to set up and look after a simple, single-entry book keeping system for recording income (what is earned) and expenditure (what is spent) in the business. For more help contact the nearest Business Advisory Service on 1300 650 058 or speak to an accountant.

**Below is a list of documents worth keeping for the record:**

- **Bank statements** – Open a separate bank account for the business. All money received by the business should be banked, and all payments made by the business should be done by cheque or electronically through the business bank account.
- **Sales invoices** – Information on the invoices to customers (bills for payment) should include the following: date of sale, ABN number (if you have one), order number, a customer reference number, the customer's name and address, details of goods or services sold, amount charged, and if the sale is cash or credit.
- **Sales journal** – Sometimes referred to as a 'day book', the sales journal is a record of all sales made through the business. The amounts should be totalled daily, weekly and monthly.
- **Receipt book** – A basic document for listing all sales. The cash register tape can be used for retail businesses.
- **Cheque butts** – The cheque butt in chequebooks should record the date, name of payee, what the cheque is used to buy, and the amount.
- **Bank deposit book** – The bank deposit book should record the date of banking, list of cheques received, cash described by note values (numbers of each type of note), and credit card slips.
- **Cashbook** – This is probably the most important basic bookkeeping record. The cash book summarises every item deposited in, or paid from the business bank account.
- **Petty cash book** – If petty cash (small change) is used in a business, it may need to be withdrawn from a bank with a cheque. If so, record how the cash is used – the date, the name of the payee, the item bought and the amount.
- **Orders** – Write out an order to keep track of ordered products or services. This is done as a part of good record keeping, and as a check on the delivery of those products or services.
- **Creditors' invoices** – Check creditors' invoices against goods or services received before making a payment.

## Managing creditors and debtors

Allowing credit for customers (IOUs) can attract more sales, and be a convenient service for customers. However, it can also create problems if customers do not repay what is owed and debts have to be chased.

Manage creditors and debtors so cash flow is not badly affected when customers are slow to pay.

### Creditors

**As a business using credit with suppliers (you owe them money), make sure to manage cash flow and:**

- Get the best possible terms of credit when paying bills – 90 days instead of 30 days
- Keep records of what is owed, whom it is owed to, and how much time there is to pay
- Try paying for non-current assets (such as machinery and equipment) over a longer period
- Decide if it is necessary to pay on receipt of goods or services
- Use full payment periods, but watch out for penalties.

### Debtors

**Bad debts (unpaid debts from customers) can be reduced by:**

- Encouraging customers to pay quickly, possibly by the use of incentives such as a small discount if bills are paid within a certain time
- Doing a credit check on new customers (checking how reliable they are at paying others)
- Explaining credit policy conditions to all customers (particularly if there are incentives for early payment or extra fees for late payment)
- Having all credit agreements (especially incentives or late fees) in writing and signed by the customer
- Using hire purchase arrangements rather than providing the customer with full credit for a purchase

- Monitoring customers' debts to see if any are overdue
- Following up overdue debts by making phone calls, visiting clients or sending polite reminder letters
- Checking if customers' payment habits are changing (for example, if they start becoming constantly late). This will help you know about their credit rating.

Several things can be done to recover debts if they persist, including legal action.

The best way is to start by contacting the person or company to try to agree about payment. A community justice centre can help work out the problem by assisting the business and the customer to talk things through. Contact the Community Justice Centres Directorate on 1800 990 777 or visit the website [www.lawlink.nsw.gov.au/cjc](http://www.lawlink.nsw.gov.au/cjc)

If mediation does not succeed, there are various legal steps available. Information about these steps is on the local courts website [www.lawlink.nsw.gov.au/lc](http://www.lawlink.nsw.gov.au/lc) and on the website of the Office of the Sheriff [www.lawlink.nsw.gov.au/ots](http://www.lawlink.nsw.gov.au/ots)

If legal action is being considered to recover a debt, contact a solicitor or talk with a chamber magistrate at the local court.

**See Appendix 2 (Part C) and Appendix 3 (Part C).**