



**Department of Economic Development and  
Tourism: Western Cape**

***Facilitating Entrepreneurship in Tourism***

# Contents

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<b>1. The Potential of the Tourism Industry.....</b>	<b>1</b>
a. Why Tourism?.....	2
b. Why service quality and excellence in Tourism?.....	1
c. Why operate legally in Tourism?.....	2
<b>2. Choosing whether to enter the industry.....</b>	<b>3</b>
a. Ask yourself: Is Entrepreneurship for You?.....	3
<b>3. Operating a small tourism business.....</b>	<b>5</b>
a. Structure of your Business.....	5
b. What is a Close Corporation (cc)?.....	5
c. What is a Sole Proprietor?.....	6
d. What is a Partnership of Joint Venture?.....	7
e. What is the Difference Between a Public and Private Company?.....	8
f. The different classes of shares.....	10
g. Restrictions on the appointing of Directorship.....	11
h. Managing your Business.....	13
i. Marketing and Advertising.....	13
j. Financial Issues.....	14
k. Business Glossary: The Financial Six C's.....	15
<b>4. How to establish various types of tourism businesses.....</b>	<b>17</b>
a. How to Establish a Restaurant, Eating House or Tavern.....	17
b. How to Establish a Bed and Breakfast or Guesthouse.....	19
c. How to establish a Tour Guiding Service.....	22
d. How to Establish a Tour Operating Business.....	24
<b>5. Writing a business plan.....</b>	<b>25</b>
a. Getting Started In 4 Steps.....	25
b. A Business Plan-Outline.....	27
<b>6. Writing proposals.....</b>	<b>29</b>
a. General information.....	29
b. Business description.....	29
c. Management profile.....	29
d. Market Information.....	29
e. Financial information.....	29
f. To lease or not to lease: things to know.....	30



## **1. The Potential of the Tourism Industry**

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### **Why Tourism?**

Tourism is considered to be an industry that has the potential to create many small businesses and therefore contribute to job creation in South Africa. We often think of the tourism industry as only accommodation (hotels, lodges, B&Bs etc.) travel services, and transport facilities. In truth, there are hundreds of services that contribute to the tourism industry and make it work. We therefore need to think more broadly and focus on the tourism economy, and all the many services that support the tourism industry.

For your business, have you considered this wider tourism economy? If you want to open a particular business, have you thoroughly researched how many similar businesses operate in your area, and whether there is really room for another, e.g. B&B, Restaurant, Tavern, Tour Operator etc.? Why don't you consider this in terms of the broader tourism economy? For example, do all those existing B&B's have adequate services being offered to them to run their businesses well. They might need auxiliary services like a laundry service, a printing service, a brochure distribution service, a cleaning service, a transport service, a security service etc. There are many, many indirect services required to make the existing businesses successful. You could think of providing one of these indirect services with the result of having your own successful business, and in turn supporting the growth of the existing businesses in tourism. Their success will mean your success. It is like a chain reaction!

### **Why Service Quality and Excellence in Tourism?**

We all know that the tourism industry is a service industry. It is based on people, and is reliant on people. This makes it unique and special, and we all need to ensure that we provide quality, excellence and top service at all times. Have you considered this? Are you equipped with the right training, staffing, facilities, safety measures, health and hygiene, etc. that will make you a quality business?

There is much competition in tourism, and only your excellent service and quality will set you apart and make you successful. Many businesses in tourism operate on similar tariffs and prices, so you can't always differentiate yourself in those areas. So be sure that your quality business will set you apart from others.



## **2. Choosing Whether to Enter the Industry**

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### **Ask yourself: Is Entrepreneurship for You?**

There is no way to eliminate all the risks associated with starting a small business. However you can improve your chances of success with good planning and preparation. A good starting place is to evaluate your strengths and weaknesses as the owner and manager of a small business.

Carefully consider each of the following questions.

- Are you a self-starter? It will be up to you – not someone else telling you – to develop projects, organise your time and follow through on details.
- How well do you get along with different personalities? Business owners need to develop working relationships with a variety of people including customers, vendors, staff, bankers and professionals such as lawyers, accountants or consultants.
- Can you deal with a demanding client, an unreliable vendor or cranky staff person in the best interest of your business?
- How good are you at making decisions? Small business owners are required to make decisions constantly, often quickly, under pressure, and independently.
- Do you have the physical and emotional stamina to run a business? Business ownership can be challenging, fun and exiting. But it's also a lot of work.
- Can you face a 12-hour work days six or seven days a week?
- How well do you plan and organise? Research indicates that many business failures could have been avoided through better planning. Good organisation- of financial, inventory, schedules, and production – can help avoid many pitfalls.
- Is your drive strong enough to maintain your motivation? Running a business can wear you down. Some business owners feel burned down by having to carry all the responsibility on their shoulders. Strong motivation can make the business succeed and will help you survive slowdowns as well as periods of burnout.
- How will the business affect your family? The first few years of business start-up can be hard on family life. The strain of an unsupportive spouse may be hard to balance against the demands of starting a business. There also may be financial difficulties until the business becomes profitable, which could take months or years. You may have to adjust to a lower standard of living or put family assets at risk.



### **3. Operating a small tourism business.**

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#### **Structure of your Business**

You may be registered as a Sole Proprietor, or your business may be a (Pty) Limited Company, or Close Corporation (CC). Chambers of Commerce are a good contact through which to obtain details of organisations that can give advice on structuring your business.

#### **What is a Close Corporation (CC)?**

- A close corporation is founded by means of a founding statement and cannot exceed 10 members who own and manage the cc. Their interest in the cc must always add up to 100% and be expressed as a percentage.
- The close corporation must be profit making in its intentions.
- It provides the members with limited liability, but personal guarantees may negate a certain amount of this.
- A close corporation is a legal entity on its own.
- A Company cannot become a member, as ownership is limited to natural persons.
- A Close Corporation Act No. 69 of 1984 governs a close corporation.
- Dividends can only be paid if the close corporation is both liquid and solvent (dividends can only be paid if after they have paid, assets exceed liabilities and the business can still pay debts when they fall due).
- CK form can be purchased at most stationery stores dealing with statutory documentation.
- Complete the "Application for Reservation of Name or Translated Form or Shortened Form" (CK7). This must be submitted in duplicate to The Registrar of Companies and Close Corporations, PO Box 429, Pretoria, 0001, Tel 012- 310 9791. A revenue stamp of R50 is required and is obtainable at any post office. A separate CK7 form is submitted for every other name together with a R50 revenue stamp for each application. The current processing time is between 3 to 5 working days in order for you to be informed of the outcome of your application.
- Once you receive your confirmation, submit the "Founding Statement" (CK1), in duplicate to the Registrar. All members must sign the founding statement. You are also required to submit a letter of consent from your accounting officer and a copy of your (CK7). A Revenue stamp of R100 is required and is obtainable at any post office. You can start your business after you receive your Registered Founding Statement. The name of the corporation must be followed by the abbreviation CC (also in the other 10 official languages, but if one is chosen together with the specific



- Trading licences
- Business name
- Regional Services Council (RSC), Unemployment Insurance fund (UIF), Workman's Compensation Insurance (WCA) and Industrial Council (IC)
- Trade mark, copyright, patents and designs

### **What is a Partnership or Joint Venture?**

- This is when two or more people decide to conduct a business together; all partners bear equal responsibility for debt incurred.
- It is advisable to consult a legal expert to draw up a written partnership agreement, this contract is the only requirement needed to set up a partnership and could be done without a lawyer.
- A partnership agreement should deal with the following issue: Formation, profit sharing arrangements, salaries, banking arrangements, changes of partners, liquidation and the responsibilities of partners.
- A partnership is not allowed more than 20 partners, except in certain instances.
- All partners are required to include all income from the partnership in their personal tax returns (IT12) available from the Receiver of Revenue (this only carries the costs of postage- some banks offer assistance with the completion of this form free of charge as a customer service).

*You may also have to register for some if not all of the following*

- Provisional tax
- Employees tax
- Income tax
- Value Added tax
- Trading licences
- Business name
- Regional Services Council (RSC), Unemployment Insurance fund (UIF), Workman's Compensation Insurance (WCA) and Industrial Council (IC)
- Trade mark, copyright, patents and designs

*Why form a partnership or a joint venture?*

- To acquire certain skills.
- To acquire additional capital.
- The business is growing and you can't manage the business on your own.



#### *The memorandum and articles of association*

- The memorandum and articles of association have to be registered at the Registrar of Companies and Close Corporations, PO Box 429, Pretoria 0001, Tel 012- 310 9791. These forms are obtainable at any stationer dealing with statutory documents.
- Most attorneys and auditors have these forms on computer.
- Submit more than one name in order of reference to the Registrar, a Revenue stamp of R50 is required and is obtainable at any post office. This is to reserve the name you would like to register your company under and is completed on form (CM5).
- The amount of initial registered share capital “ Par value” shares (e g one hundred shares at R5 each) or “ no par value” shares (e.g. one hundred shares). This is submitted to the Registrar on the CM11.
- CM9 is required if a special resolution is necessary in terms of the memorandum and the articles of association
- Any legal company powers you would like to exclude or qualify.
- Mention any contract entered into by the members before registration of the company.
- Any special conditions
- An association clause stating that you wish to form a company and how many shares they agree to own.
- The articles of association deal with the internal management of the company. Schedule 1 of the Companies Act has a model, which you could follow. (Similar to the CC’s association agreement).

#### *Other documents*

- Every other name of the company (translated or shortened form) should first be reserved separately on CM5 with a R50 revenue stamp for each name. CM7 “Approved translated version of name of abbreviated form” is submitted to the registrar with a R30 revenue stamp.
- CM22 Physical and postal address of the company is submitted to the registrar without a revenue stamp.
- The auditor needs to complete a CM31, which contains all his/ her detail and serves as his consent to act for the company. This is submitted to the registrar without a revenue stamp.
- Evidence that the necessary fees have been paid, about R461 is a basic fee and a fee of R5 for each R1000 or part thereof of authorised share capital which is submitted on CM11. No annual duty is payable.



they will be acquired. A director who does not hold the specified number of qualification shares must vacate directorship.

#### *Restrictions on the appointing of Directors*

- Any minor
- Anyone who has not tried to settle his or her debt.
- Anyone who has been removed from a position of trust as a result of misconduct.
- Anyone convicted of certain specified criminal offences.
- Anyone disqualified by the court.
- A person who does not qualify as a director may not be in management.
- The company's auditor may not be a director.
- An executive director is any employee who is appointed as a director.
- The other directors normally appoint a managing director.

#### *Directors' duties*

- The director is responsible for keeping accounting records and representing the transactions of the company and its financial position honestly and accurately.
- Financial statements are prepared and submitted to the Annual General Meeting.
- These financial statements include the balance sheet, income statement, source and application of funds statement, cash flow statement, director's and auditor's reports.
- The Director's report must conform to Schedule 4 of the Companies act.
- During all meetings, minutes must be taken and signed by the chairperson. Directors must also sign an attendance register.
- All directors should approve any contract the company intends entering into.
- An auditor must be appointed or re-appointed at the Annual General meeting. If not, directors are obliged to fill the vacancy within 30 days.
- Directors will be held liable for debts incurred through recklessness or intent to defraud the company.

#### *Criminal offence*

- Failure to keep minutes of company meetings, directors or management meetings.
- Failure to lodge written consents to act as a director or officer.
- Falsifying books and records
- Failure to submit details to the registrar concerning company membership.
- Failure to use the prescribed name of the company documents.
- Any breach of a whole host of regulations regarding share capital and shares, including the allotment and issue of shares, transfer of shares, classification of shares, directors' right to deal in shares, and the restriction placed on certain shares.
- Failure to register special resolutions.





## **Managing your Business**

*Management of your business will involve*

1. A decision on the types of packaging of services
2. Bookkeeping and accounting
3. Arrangement of VAT and taxes
4. Record keeping for your own records, for advertising reasons and for tax purposes
5. Taking and managing bookings from clients
6. Employment and labour conditions which includes employment equity, labour unions, and conditions of employment
7. Training of staff: it is vitally important that staff are trained in customer care and to be professionals in their field
8. Insurance cover which includes both security and public liability

## **Marketing and Advertising**

In Tourism, this is probably the most important area to thoroughly research, and ensure your marketing and advertising activities are targeted correctly. These activities can be very expensive, probably the most expensive part of your business, and if done badly, it will cost you dearly. Marketing and advertising can be done through a variety of mediums such as printed brochures, internet, television, local media like newspapers, and word of mouth. You should also approach the Western Cape Tourism Board who have a Web portal for tourism businesses in the Western Cape. Publicity Associations can also help you with your advertising information.

Any brochures produced to advertise your business should include all the relevant information on the services you offer, with clear and concise contact details and a promotional slogan that will identify your business to the market. The brochure should be well laid out, attractive and easy to read.

To assist small tourism businesses to market themselves the Department of Environmental Affairs and Tourism have a programme called ITMAS (International Tourism Marketing Assistance Scheme). They assist with promotional materials, attendance at trade fairs and so forth.



*The minimum requirements for a small business operation are*

1. Cash Book
2. Cash Control Systems
3. Assets Register
4. Debtors Record
5. Creditors Record

### *Budgeting*

Budgets are based on past experience, current state of affairs and future expectations. Budgets will help provide an estimate of financial requirements for the business operations. Kinds of budgets include:

- Sales budget: a forecast of expected monthly income
- Materials budget: expected purchases
- Labour budget: expected salaries/wages multiplied by the numbers of workers
- Capital budget: expected fixed assets expenditure, e.g. machinery, land etc.
- Cash budget: expected working capital requirements over a specific period.

### *Tariff Structure*

Tariffs should be based on those of your competitors and expected income and expenditure for the proposed operation. Research will therefore be needed in order to set realistic tariffs.

### *Business Glossary: The Financial Six C's*

**Character:** the degree to which a borrower feels a moral obligation to pay his/ her debts, measured by the credit and payment history.

**Capacity to pay:** a subjective determination made by a lender based upon an analysis of the borrower's financial statements and other information.

**Capital:** the amount of capital in a business is equal to the total of capital from debt and equity. Lenders prefer low debt- to- asset and debt- to- worth ratios and high current ratios. These indicate financial stability.

**Collateral:** an asset owned by the borrower instils confidence in the lender by addressing all the lender's concerns on the other five c's. Their loan application sends the message that the company is professional, with an honest reputation, a good credit history, reasonable financial statements, good capitalisation and adequate collateral.



## **4. How to Establish Various Types of Tourism Businesses**

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### **How to Establish a Restaurant, Eating House or Tavern**

#### *Definition*

A **restaurant** or other **eating house** is a business that concentrates on selling meals and may or may not be licensed to sell liquor for consumption on the premises. A **tavern**, on the other hand, is primarily licensed to sell liquor for consumption on the premises and it may or may not also serve meals.

*Some questions you should ask yourself:*

**Space:** Is the space you have identified for your business enough to accommodate the number of people you plan to host?

**Parking:** Is there enough parking in the surrounds to accommodate your customers, and can they park safely and conveniently?

#### **Venue:**

- Is the site you have chosen quiet enough for people to eat or drink undisturbed?
- Are the street surrounds neat, well kept and regularly maintained?
- If liquor is to be sold in the establishment, is this likely to disturb surrounding establishments and neighbours?
- Is the site free of unpleasant odours, rubbish etc.?
- If you are going to provide live entertainment, have you considered your neighbours and asked their consent?

**Equipment:** Have you got adequate catering equipment, cutlery, crockery, serving place etc. to cater for the number of people you plan to host?

#### **Safety:**

- Have you considered all the safety and security aspects related to your business?
- For example, have you got fire extinguishers appropriately placed for easy access?
- Have you ensured the safety of your customers with regard to their motor cars, security in your establishment, access to a telephone for emergencies, a well equipped First Aid kit.

**Health:** Health Regulations must be adhered to. Have you contacted your local council for health regulations and requirements related to eating and catering establishments?



## How to Establish a Bed and Breakfast or Guesthouse

### *Definition*

A **Bed & Breakfast** establishment (B&B) is an informal, periodic accommodation operation undertaken from the private dwelling. The maximum number of guest bedrooms in a B&B is 3 (Any application received by the Authorities for a B&B establishment with more than 3 bedrooms is automatically treated as a Guest House).

A **Guest House** is a commercial accommodation establishment offering between 4-16 bedrooms, which has as its primary source of business the supply of tourist accommodation. Breakfast and dinner are made available to guests, particularly where dinner is not readily available in the vicinity of the establishment.

### *Questions you need to ask yourself*

**Parking:** Is there enough parking in the surrounds to accommodate your customers, and can they park safely and conveniently?

### **Your B&B:**

- Is your site quiet enough for people sleep undisturbed?
- Are the street surrounds neat, well kept and regularly maintained?
- Is the site free of unpleasant odours, rubbish etc.?

**Equipment:** Have you got adequate catering equipment, cutlery, crockery, serving places etc. to cater for the number of people you plan to host?

### **Safety:**

- Have you considered all the safety and security aspects related to your business?
- For example, have you got fire extinguishers appropriately placed for easy access?
- Have you ensured the safety of your customers with regard to their motor cars, security in your establishment, access to a telephone for emergencies, a well equipped First Aid kit?

**Health:** Health Regulations must be adhered to. Have you contacted your local council for health regulations and requirements related to accommodation establishments?

### **Aesthetics:**

- Have you considered whether your establishment is attractive and inviting, and will lure people to come and stay?
- You should consider an attractive colour scheme, cleanliness of the whole environment, pleasant and welcoming staff and good signage and information on your B&B.



**Zoning:** To find out if your Local planning structures allows for your chosen business activity on the site you have selected.

*Other authorities*

**Liquor Licence:** For application and granting of a liquor licence you need to talk to the Liquor Board, and apply for a licence in terms of legislation.



### *Questions you need to ask yourself*

**Legal:** Are you a fully registered and legal guide? You have to comply with the Tourist Guiding legislation in this regard. You will need to be able to prove that you have the requisite qualifications to register as a legal guide.

**Transport:** Do you have the required transport and driving permits? If you are going to transport tourists as well as be a guide, then you need to have a road transportation permit, as well as a public driving permit.

**Training:** Do you have the right training and experience to be a good guide? To obtain the right qualifications, you need to have completed training according to the registered standards for Tourist Guiding. Be sure that wherever you train, the institution is registered with the Tourism, Hospitality and Sport Education and Training Authority (THETA), and that the qualification they offer is in line with current legislation. To be sure you can contact your Provincial Registrar of Guides or the THETA in Johannesburg on (011) 803 6010.

### *Some helpful hints and tips*

To improve your chances of securing work as a tourist guide, it is recommended that you speak a foreign language, e.g. Spanish, French, German etc.

As a tour guide you may take tourists through certain rural communities. It is important to strive to secure a partnership, or some formalised co-operation with such communities as part of building a positive tourism atmosphere in South Africa, ensuring tourist safety and achieving a transfer of financial benefits to communities. This could be in the form of tourists spending money on curios, craft products and cultural artefacts, accommodation and possible a percentage fee based upon the fees paid by tourists.



## **5. Writing a Business Plan**

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Starting and managing a small business takes motivation, desire and talent. It also takes research and planning. Like a chess game, success in the small business starts with decisive and correct opening moves. And, although initial mistakes are not fatal, it takes skill, discipline and hard work to regain the advantage.

To increase your chance for success, take the time up front to explore and evaluate your business and personal goals. Then use this information to build a comprehensive and well thought out business plan that will help you reach these goals.

The process of developing a business plan will help you think through some important issues that you may not have considered yet. Your plan will become a valuable tool as set out to raise money for your business. It should also provide milestones to gauge your success

### **Getting Started In 4 Steps**

1. Before starting out, list your reason for wanting to go into business.

*Some of the most common reasons for starting a business are*

- You want to be your own boss.
- You want financial independence.
- You want creative freedom.
- You want to fully use your skills and knowledge.

2. Next you need to determine what business is “right for your”.

*Ask yourself these questions*

- What do I like to do with my time?
- What technical skills have I learned or developed?
- What do others say I am good at?
- How much time do I have to run a successful business?
- Do I have any hobbies or interests that are marketable?

3. Then you should identify the niche your business will fill.

*Conduct the necessary research to answer these questions*

- Is my idea practical and will it fill a need?
- What is my competition?



## **A Business Plan Outline**

The following outline of a typical business plan can serve as a guide.

You can adapt it to your specific business. Breaking down the plan into several components (minimum 5 components as in this outline) helps make drafting it a more manageable task.

### **1. Introduction**

- Give a detailed description of the business and its goals.
- Discuss the ownership of the business and the legal structure.
- List the skills and experience you bring to the business.
- Discuss the advantages you and your business have over your competitors.

### **2. Marketing**

- Discuss the product/ services offered.
- Identify the customer demand for your product/ service.
- Identify your market; it's size and location.
- Explain how your product/ service will be advertised and marketed.
- Explain the pricing strategy.

### **3. Financial Management**

- Explain your source and the amount of your initial equity capital.
- Develop a monthly operating budget for the first year.
- Develop an expected return on investment and monthly cash flow for the first year.
- Provide projected income statements and balance sheets for a two-year period.
- Discuss a break-even point.
- Explain your personal balance sheet and method of compensation.
- Discuss who will maintain your accounting records and how they will be kept.
- Provide "what if" statements that address alternative approaches to any problem that may develop.

### **4. Operations**

- Explain how the business will be managed on a day-to-day basis.
- Discuss hiring and personnel procedures.
- Discuss insurance, lease or rent agreement, and issues pertinent to your business.
- Account for the equipment necessary to produce your products or services.
- Account for production and delivery of products or services.

### **5. Concluding statement**

- Summarise your business goals and objectives and express your commitment to the success of your business.





## **6. Writing Proposals**

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Approval of the loan request depends on how well you present yourself, your business, and your financial needs to a lender. Remember, lenders want to make loans, but they must make loans they know will be repaid.

The best way to improve your chances of obtaining a loan is to prepare a written proposal.

*A good loan proposal will contain the following key elements*

### **General information**

- A business name, names of principals, identity number for each principal, and the business address.
- Purpose of the loan, exactly what the loan will be used for and why it is needed.
- Amount required, the exact amount you need to achieve your purpose

### **Business description**

- History and the nature of the business, details of what kind of business it is, its age, number of employees and current business assets.
- Ownership structure, details on your company's legal structure.

### **Management profile**

- Develop a short statement on each principal in your business; provide background, education, experience, skills and accomplishments.

### **Market information**

- Clearly define your company's products as well as your markets.
- Identify your competition and explain how your business competes in the marketplace.
- Profile your customers and explain how your business can satisfy their needs.

### **Financial information**

- Financial statements - balance sheets and income statements for the past 3 years. If you are starting out, provide a projected balance sheet and income statement.
- Personal financial statements on yourself and other principal owners of the business.
- Collateral you would be willing to pledge as security for the loan.



*Lease terms you should know:*

- Lessor: landlord
- Lessee: tenant
- Right of first refusal: before vacant space is rented to someone else, landlord must offer it to the current tenant with the same terms that will be offered to the public.
- Gross lease: tenant pays flat monthly amount; landlord pays all operating costs, including property taxes, insurance and utilities.
- Triple net lease: tenant pays base rent, taxes, insurance, repairs and maintenance.
- Percentage lease: base rent, operating expenses, common area maintenance, plus percentage of tenant's gross income (most common for retailers in shopping malls).
- Sublet: tenant rents all or part of the space to another business; tenant is still responsible for paying all costs to the landlord
- Assign lease: tenant turns lease over to another business, which assumes payments and obligations under the lease.
- Anchor tenant: major store or that attracts customers to a shopping centre.
- Exclusivity provision: shopping centre can't lease to another who provides the same product or service that existing tenant does.
- CAM: common area maintenance charges including property taxes, security, parking lot, lighting and maintenance; may not apply to anchor tenants in retail leases.
- Non-disturbance clause: tenant cannot be forced to move or sign a new lease if building or shopping centre is sold or undergoes foreclosure.