

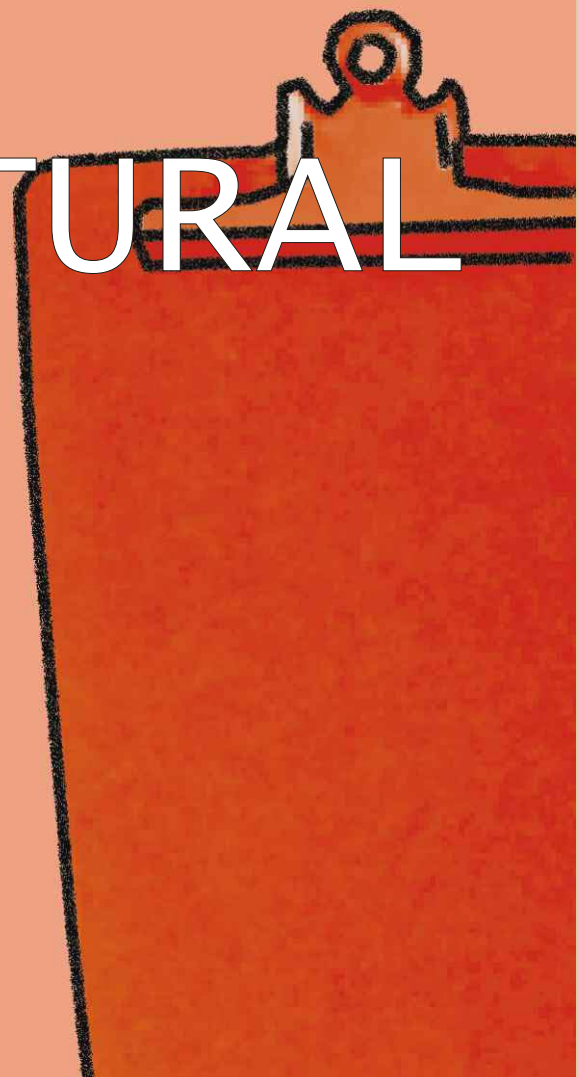


STARTING

your

AGRICULTURAL

Business



BOOK FIVE

Starting your AGRICULTURAL BUSINESS

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BOOK FIVE

Outcomes

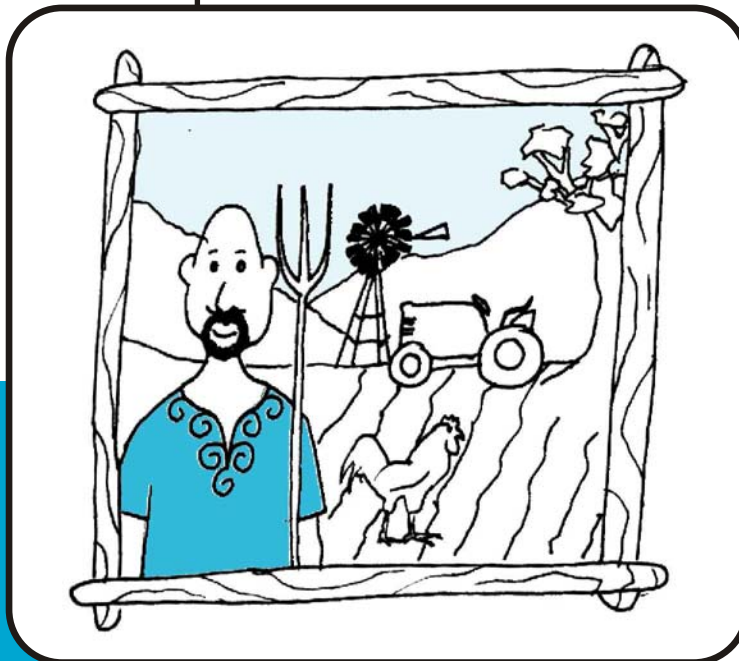
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After studying this booklet you will be able to:

- ✓ Start a business
- ✓ Select the correct type of business
- ✓ Know the different forms of business
- ✓ Identify the legal requirements for your business
- ✓ Distinguish between businesses in the private sector and agriculture
- ✓ Evaluate your own potential

Situation

Bongani works as an employee on a farm and has saved a little bit of money. He wants to start a small business in a rural area and sell agricultural products to the local people. Before he can start trading, he needs to decide on a specific type of business. He has already worked at a cooperative and has learned a lot about entrepreneurship.



Introduction

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Starting a business takes much desire, research and planning. All of this takes time. Patience is a big key to starting a business. One often hears the words: "Go for it! You've got nothing to lose." Such words tend to lift the spirit but can be a mistake if the focus is not on a solid opportunity.

One can compare a game of chess or poker, to the starting of a small business. The opening move must be correct and decisive. Mistakes are not fatal but to regain the upper hand will take hard work and discipline.

A person like Bongani has to know the various steps to success:

- * Decide on the form of business which will be suited to your needs
- * Look for the right opportunities
- * Realise that every opportunity has its risks and problems
- * Identify the risks and problems early on, so that you can eliminate them beforehand
- * Determine the cost and legal aspects of starting a business
- * Ask for professional help from your attorney, accountant or the Department of Agriculture
- * Check with the local authorities if there are any regulations or permits needed for the business
- * Find ways to obtain and secure your capital



Getting off the Ground

Everybody thinks his idea is best - but will it sell? There are a few aspects to look at before even starting your own business.

Bongani has to think honestly about the following aspects and has to answer the following questions:

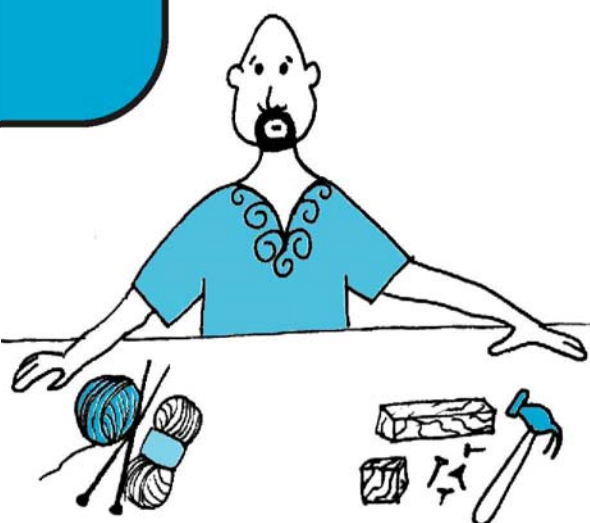
Capabilities:

What are your talents?
Do you have leadership skills and can you make tough decisions?
How much are you willing to risk? (Remember you will be working long hours and there is no guarantee you will receive money in the first few months)

Look at the characteristics of entrepreneurship in book 4.

Idea:

Is this idea workable and will it meet the consumer's needs?
What makes this idea so much better than its competition? (Find out who is the competition and what their position in the market is)
Are there ways to improve your idea through a wide range of products?
Should you patent your idea?
What kind of business will you need to make this idea work?



Skills:

What kind of skills are needed to put this idea in working?

Do you have these skills or do you need outside help to obtain them?

What is needed to get the edge on other businesses? (marketing or customer services)

What are your advantages?

Financial Resources:

This is one of the make-or-break issues. This is where the term "It takes money to make money" comes in.

How much money do you have and how much are you willing to risk?

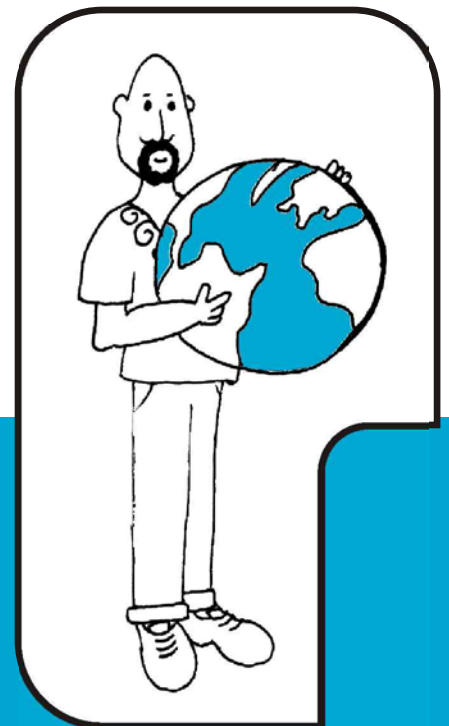
Decide if you are going to invest your own money, obtain a loan or an overdraft, make use of investors, or a combination of these.

Location:

Location is very important.

Can you sell this idea in your area or will you have to move? Even if it is not abroad, distance can turn out to be a problem in terms of cost.

The name of the business can also be applied to your location. Some people have different words for one product where there are various languages spoken in one area.



Getting off the Ground
... continued

Different Types of Business

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Now Bongani has to decide between the following types of business. He should decide what is best for the product, and not what is best for himself.

1. Sole proprietor

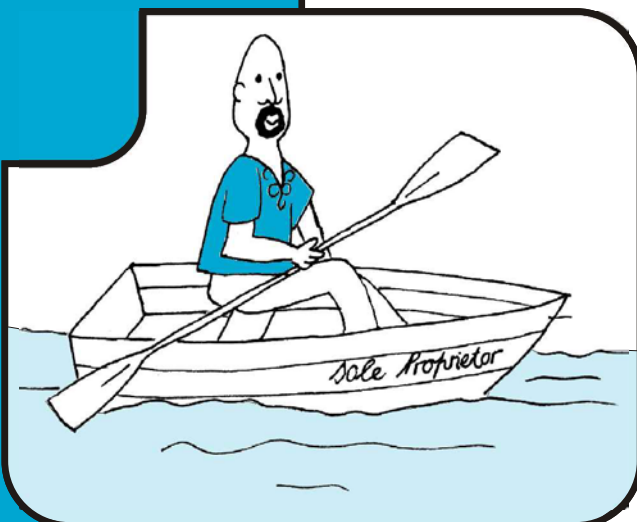
This is the most common form of business, especially for the small businessman. The owner of the business usually runs the business and has full authority over the profit. He alone carries the risk of the business. There is no difference between private wealth and business wealth. The income of the business is taxed on a normal tax scale for individuals.

Pros (+)

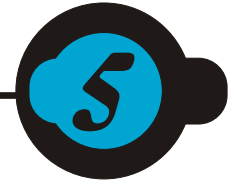
- + The sole proprietor does not have many legal formalities. In some cases business licences must be obtained (e.g. liquor licence). Starting costs are low.
- + The sole proprietor business can be closed quickly and easily without any formalities.
- + The owner has the right to all the profit.
- + The sole proprietor is very adaptable to changing markets.
- + There are no obligations toward the state except for end of the year tax forms.

Cons (-)

- The owner carries all the risks of the business. If the business fails, he is liable for all the debt.
- The future of the sole proprietor business is not always certain.
- The size and growth of the sole proprietor business depends solely on the owner.



2. Partnership



A partnership is an expansion of the sole proprietor. A partnership is an agreement between two or more people (though not more than 20), with a contractual agreement between them, to run a profit-driven business where all the partners have to give inputs (money or service) and the profit is shared between them.

Some aspects of a partnership which includes pros and cons:

- * All the partners are bound to the partnership through their actions. Although their assets are separated from the business they are still owners of the business assets and everybody is liable in the case of debt.
- * Each partner must make a contribution to the business, whether it be money, a service or a combination of these. This will determine their proportional share in the business and the profit will be divided accordingly.
- * There may not be more than 20 partners unless they are granted permission from the state.
- * The life span of the partnership is uncertain. If one of the partners dies or is sequestrated, the partnership is dissolved.
- * In a case of disablement the assets of the business are changed to money and then divided. Where a loss has been made the partners will have to pay the debt. If the partnership is liquidated, each of the partner's estates will be sequestrated.
- * The partnership is not taxed as an individual person but each partner is taxed individually according to his or her income.





Different kinds of partnership

Common partnership:

All the partners are liable for the debt of the partnership.

Silent partnership:

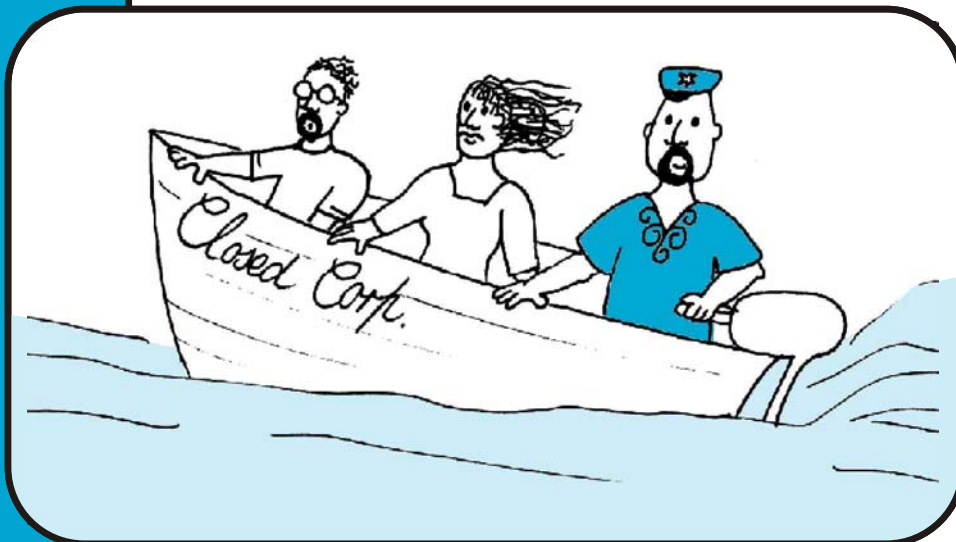
The public does not know the silent partners and their liability is limited to their preparation of the debt.

Commanditaire partnership (sleeping partner):

He is only a partaker in the partnership because of his financial contributions to the partnership. The public does not know him. He shares in the profit and losses but is limited to his proportional input.

3. Closed corporation

A closed corporation is one of the latest business forms. It has been presented to the market because it is cheaper, simpler and more adaptable for small businesses.



Different Types of Business

... continued

Aspects of a Closed Corporation

- * A closed corporation is a legal entity and is separated from its members. Its continuity is more certain because of the fact that a change in members does not bring a change in the business itself.
- * The start up cost of a closed corporation is far less than for a company.
- * Closed corporations can have one member but not more than ten. It does not have to be profit-driven.
- * There are no shares in a closed corporation but it has members' interests. (Members' interests are expressed in percentage).
- * All the members must be natural persons or a trustee of a natural person.
- * All the members are concerned with the business.
- * The law is very much against crime and the members run the risk of being liable in cases where there is a breach of law.
- * A closed corporation is taxed on the current company's tax rate.

Pros & cons of a closed corporation compared to a company

Pros (+)

- + Simplicity of management. Responsibility rests with the members.
- + Simplicity of the management infrastructure. Members can make decisions on an informal basis.
- + A closed corporation may buy a member's interest under certain circumstances.
- + The transfer or obtaining of the member's interest is not subject to stamp duty.
- + When transforming a company into a closed corporation; there is no stamp duty payable for the transfer of assets that are registered in the company's name.
- + No statements have to be submitted to the registrar of the closed corporation.
- + A closed corporation may obtain shares in a company but a company may not obtain members' interests in the closed corporation.

Cons (-)

- All the members represent the closed corporation and therefore their actions can lead to agreements, which are not in the best interest of all. This makes the risk higher for the other members.
- The simplicity and lack of formalities in a closed corporation can lead to deceit and mismanagement.



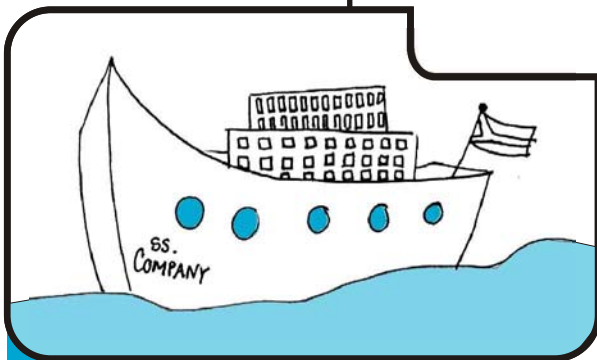
4. Companies

The most common form is the company with share capital. The risk of the shareholders goes no further than their amount of share capital. Shareholders have limited liabilities.

There are a lot of formalities in a company. The burden of the management is left to the directors. The shareholders are responsible for the share capital and can exercise control over the company through general meetings.

A company is a legal entity and is separated from its shareholders. The assets belong to the company and not to the shareholders. The profit belongs to the company and the shareholders can obtain some of this income through dividends. They will only get their share when the company is disbanded or liquidated. Companies have a long lifespan because they are not affected through changes in shareholding.

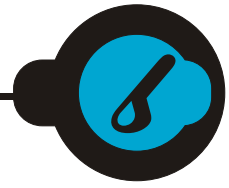
There are mainly two types of companies: Companies with share capital and those without. We will be looking at the companies with share capital, namely public and private companies.



The difference between a public and a private company:

- * A private company's members are limited to 50 people.
- * A member may transfer his or her shares in the private company to other members of the company, but this is restricted by the statutes of the company.
- * A private company is not allowed to offer its shares for sale to the public.
- * A public company must have at least seven members.
- * A public company can obtain its funds from the public.
- * Shares in a public company are freely transferable.
- * Shares in a public company may be negotiated in the market.
- * A public company must show its financial statements to the registrar of Companies.
- * A private company must have at least one director where the public company must have at least two directors.

Legal Requirements



Once you have established the best form of business for your needs there will be some organisational requirements you should perform before the opening date. Ask your attorney or accountant about the legal requirements because there are different requirements for different businesses.

Business name:

The name should be catchy and in line with your business. The name should be checked with the trade mark office to ensure no one else is using that name, and then registered.



Bangani's
AGRICULTURAL SUPPLIES

Organisation Format:

When choosing a format you should consult your accountant or attorney for the best option in your line of business. For instance, a company should be registered at the companies' office and shares and directors should be registered as well. There will also be some requirements for companies like an Act of Founding and a Founding of Statute. It is very important to register the address of your company and who your accountants and attorney are.



Business licences and permits:

Obtain a business license to conduct business and get the necessary permits (e.g. liquor licence).

Applicable regulations:

Look at the safety and health requirements and find out if you need to apply for the *Compensation Fund* should an accident happen.

You need to have:

Revenue Tax numbers if you are going to have employees.

A VAT registration number if your turnover exceeds R300 000.00 per year

Unemployment Insurance Fund if you are going to have employees.

Insurance:

You might need insurance against theft and fire as well as liability insurance.

Legal Requirements
... continued

Comparing

agricultural businesses
(e.g. cooperatives) to
the private sector



When we talk about the private sector we look at businesses which are owned privately or by groups (sole proprietor, partnership, closed corporation or private company). These companies are not very large in terms of manpower.

This includes the agricultural business, although in agriculture we tend to look more at land and the product rather than the business.

The private sector and agricultural businesses are managed on the same principles. Both of them need capital to start with. Most of the agricultural businesses are usually small businesses where a sole proprietor is a crop farmer, or there is a closed corporation where families are farming together. As in the private sector these businesses must be registered and all the necessary legal requirements must be obtained (as discussed previously). There may be some tax exemptions for the agricultural business.

In agricultural businesses the risks are a little bit higher because there are more variables that have an impact on business. Weather and water play big roles in agriculture, which lead to higher risk.

Where a few individual farmers get together to share certain facets of business/farming the obvious corporation to form is a cooperative. Individuals or legal entities (closed corporation and companies) may become members of a cooperative.





Conclusion

There are always risks involved when starting but the rewards can be plenty.

Remember:

- * A good entrepreneur with an idea and the right opportunity usually succeeds.
- * A good model and the right set-up are very important. (Minimising your risk will help a lot when starting)
- * Capital is often the biggest problem, so one does not want to spend more than is necessary.
- * The customer's needs are the most important and by saving yourself time and money you will have more time to achieve your goals.

Assessment



- * In your own words describe the aspects that must be considered when thinking of starting a business.
- * What are the different types of business?
- * Explain the pros and cons of a sole proprietor
- * Describe the elements of a partnership.
- * Name the various partnerships and their differences.
- * In your own words, why would you prefer a closed corporation to a company?
- * What are the differences between a private and a public company?
- * Name and describe the different legal requirements.
- * Name the comparisons between the agricultural business and the private sector
- * Make a checklist for Bongani to work through before he opens his business.

