

STARTING YOUR OWN BUSINESS

The Jewellery Council of South Africa





WHAT'S THIS ABOUT?

Welcome to the sixth instalment.

This series of articles, kindly supported by the Mining Qualifications Authority (MQA) and the Jewellery Council of South Africa (JCSA), focuses on the business side of setting up and running a jewellery business. The series is loosely based on the New Venture Creation Qualification, a qualification with over 160 minimum credits. By keeping all your completed exercises – and all your researched and well-argued answers – you will have the beginnings of a solid portfolio of evidence towards achieving this qualification.

This is the sixth instalment in a series that will run until the end of this year. The content of the series is not to increase or improve your technical skills in jewellery manufacturing design, as I know very little about that. The series focuses on business skills that you will need to be able to successfully design and manufacture jewellery for profit.

At the end of each instalment, there are a number of questions for you to consider and record your answers. Store these with all your other answers. At the end of the series of articles – if you've completed all the exercises

and answered all the questions – you will have the beginnings of a good business plan.

Despite trying to cover all aspects of business, we won't be able to in this series. Having said that, you might want more information on an aspect that we have covered quickly, or perhaps you would like to know more about something we mentioned in passing. If so, we are more than happy to try to accommodate your queries.

Please feel free to e-mail your questions, comments (both the good and bad) and suggestions to: articles@spi.org.za. I might not be able to tell you the melting point of an alloy, but I will be able to tell you the ins and outs of turning that alloy into a saleable product.

This month's topic is the lifeblood of every business – money. No matter how well structured your business, how well defined your marketing strategy, how artistically stunning your pieces or how smooth your administration, if you have difficulty getting this part of your business correct, you have reached the beginning of the end of your venture.

The strange thing about money is that despite it being central to almost every aspect of business, for those who start their own businesses, it is often not central to their actions – although it is part of their thinking. After all, the main reason most people start their own businesses is to make money. Unless you're interested in working for yourself for another reason – you might have a certain set of skills or really just enjoy what you're doing. Money forms a secondary consideration. As Bette Davis said: "To be given the chance to create is the meat and potatoes of life. The money is the gravy ... I love to dunk my crust in it. But alone, it is not a diet designed to keep body and soul together."

This month we'll focus on the main aspects of money in your business.

Always remember, though, money is not the destination – just a vehicle for the journey.

Gordon Freer has worked in the field of small business development for the last 10 years and has a slightly irreverent, yet realistic, view of the field. He is a founding trustee of the Platinum Trust of South Africa and managed the planning and set-up of the SEDA Platinum Incubator (www.spi.org.za), an initiative of the Platinum Trust, supported by the SEDA Technology Programme.

He has now handed over the incubator to a very capable team and instead sweats blood for Insight Strategies (www.insight-strategies.net). ■



MONEY AND PASSION THE HARSH REALITY

Understanding the financial side of a business while still enjoying what you do.

In any business, passion and money often find themselves in conflict with one another. We are all familiar with the concept of the “starving artist” – the individual who abandons all to pursue his true passion and lives the life of a pauper, but creates wonderful masterpieces. Perhaps it is the creative industries that allow this conflict to be seen in the most obvious way, but it applies to all sorts of businesses and professions.

You would be surprised how many professionals (doctors, lawyers, architects, engineers, vets, dentists and even bookkeepers) have little or no idea of how to run their practices along business lines. In all other respects, they run their practices professionally and are always ethical and courteous while taking their responsibilities very seriously. The concept of profit and loss

is certainly not foreign to them. However, the concept – when applied to their business – has little meaning. Why? Because most of them are doing what they love, and love what they’re doing. Money often remains a secondary objective.

One of the main objectives of this series is to assist you in understanding your own business while allowing you to still love what you do. I want to help ensure that your venture is successful as a business – in other words, that it makes money as well as giving you enjoyment and pleasure.

Are you able to answer the following questions?

How much did the last piece that you created cost to make?

How much did the last piece that you designed cost to design?

What are the running costs of your business – even if you don’t make anything for a month?

If you had difficulty answering these questions, you need to think about the money your passion needs to burn brightly.

This month’s articles will provide you with some ideas on how to plan and manage your money within your business. The do not in any way attempt to replace the services of a financial advisor; they’re simply suggestions on budgeting and planning financially within your business. We will look at tax (actually just one aspect of it – VAT), though tax is a vital topic and warrants more attention than we can hope to give it here. After reading these articles, I suggest that you write down a few questions and discuss them with a business-related financial advisor. ■

MINING QUALIFICATIONS AUTHORITY

“DIGGING WITH SKILLS AND KNOWLEDGE”

Vision

A competent, health- and safety-orientated mining and minerals workforce.

Mission

To ensure that the mining and minerals sector has sufficient competent people who will improve health and safety, employment equity and productivity.

Values

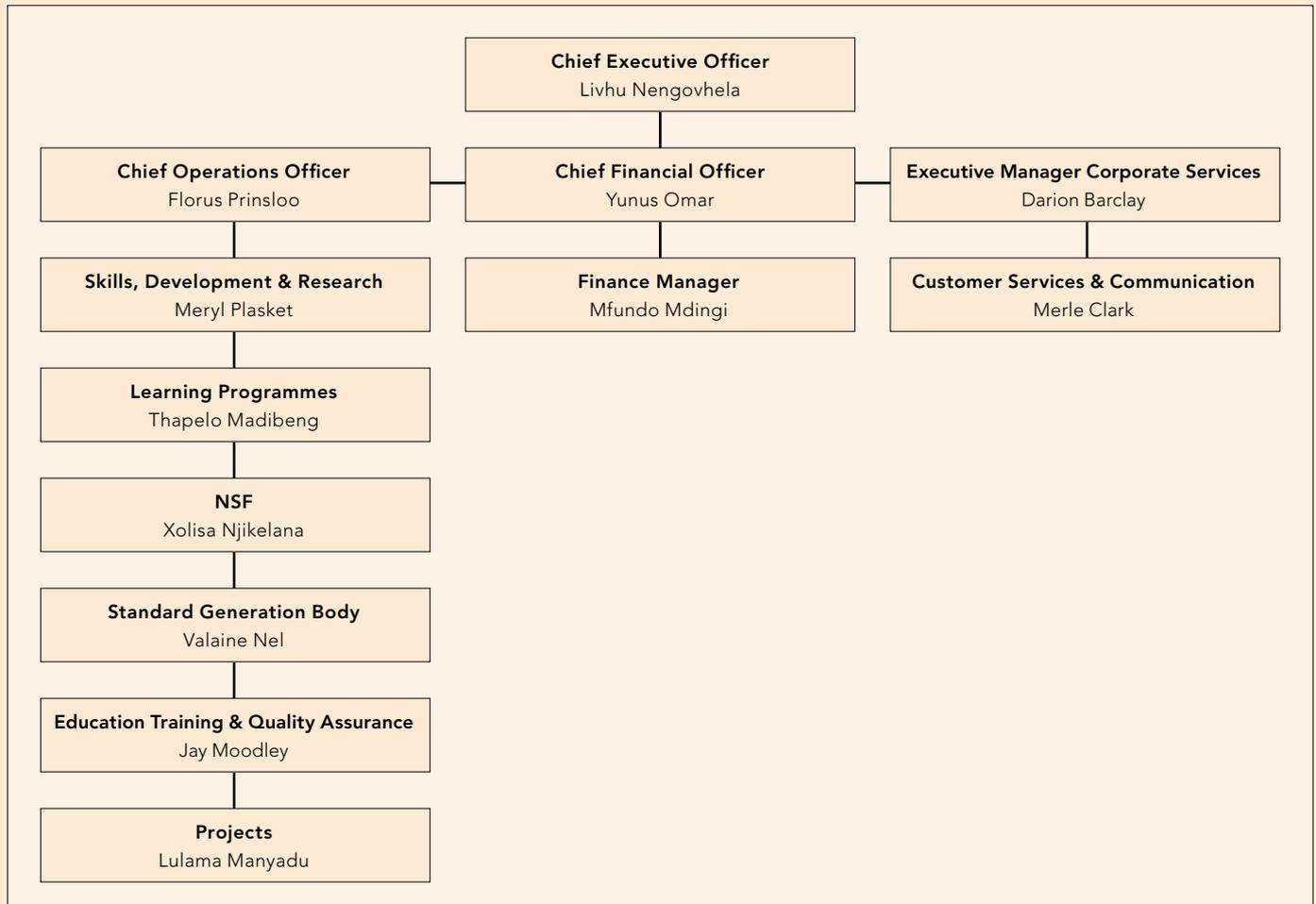
Continuous learning
Empowerment
Professionalism
Honesty and mutual respect
Service excellence

Strategic themes

1. Transformation of the sector through skills development.
2. Health and safety training and development.
3. The development of our current workforce and new entrants to the labour market.
4. Re-skilling of employed/unemployed for sustainable employment.
5. The delivery of quality training and development.



MINING QUALIFICATIONS AUTHORITY



DEVELOPMENTS IN THE AREA OF BENEFICIATION – Jewellery

	NAME OF QUALIFICATION	LEVEL	STATUS	REGISTERED LEARNERSHIPS
1	National Certificate: Intro to Jewellery Manufacture in a Production Environment	2	Awaiting registration (at SAQA)	
2	National Certificate: Jewellery Manufacture in a Production Environment	3	Awaiting registration (at SAQA)	Registered Level 3 Learnerships Exist
3	FETC: Jewellery Design	4	Registered	Jewellery Design
4	FETC: Jewellery Setting	4	Registered	Jewellery Setting
5	FETC: Jewellery Manufacture	4	Registered	Jewellery Manufacture

SKILLS PROGRAMMES UNDER DEVELOPMENT

	NAME OF SKILLS PROGRAMME	STATUS
1	Administer a jewellery workshop	In the process of development
2	Administer jewellery sales	
3	Identify and grade a gemstone	
4	Evaluate and appraise jewellery	
5	Polish and plate jewellery	
6	Quality control jewellery	
7	Clean up castings and assemble of jewellery components	
8	Perform lapidary procedures	
9	Manufacture jewellery by utilising machine operations	
10	Computer-aided design	
11	Mechanically surface finish jewellery	
12	Manage the distribution of metals and alloys	
13	Produce master models for re-production	
14	Make moulds, wax inject, invest and cast	
15	Design, quote and price jewellery	
16	Manufacture indigenous jewellery	
17	Pavé-set gemstones into jewellery	
18	Channel-set gemstones into jewellery	
19	Tube-set gemstones into jewellery	

IT ALL STARTS WITH A PLAN...

A business “menu” is the same as preparing dinner for close friends – the first thing you’ll need is a recipe and then a shopping list.

As with most things, reality begins to take shape when we move from an idea to actual planning. One of the first steps to reality within your business involves developing a budget. For those of you who are already forcing back a yawn of boredom – think of a budget as a shopping list.

Imagine you want to make a fancy dinner for some of your good friends and need to buy the ingredients for the meal. One of the first things you will do is decide on a menu – what you’ll be serving. In the previous months you’ve already done this. You have decided on the type of jewellery your business is going to make and who you are going to sell it to. This is your business “menu”. Back to food – once you’ve decided what you’ll be serving for starters, the main course and dessert, you’ll need to figure out what you have available in the kitchen and what you still need to buy.

Now, you might be a “follow the recipe in exact detail” type of person – or, like me, you might be more of a “that looks like enough, maybe throw some of this in as well” type of cook. If you fall into the first category, you will probably draw up a precise list of ingredients (as instructed by the recipe books), then search through your cupboards to see what you have and what you still need. If you are like me, you will read through the recipe and think of replacing some of the ingredients with others, and then write up a list of what you need. Either way, you will end up with a list.

Before I let you loose in the supermarket, I want to bring you back to the business budget that we are dealing with. It is exactly the same as developing a shopping list. Remember a few months ago when

we discussed whether you’ll be making one-off creations or mass-manufactured pieces? The same rules apply to these scenarios. Whether you plan on making boerewors rolls for six of your closest friends who are going to drop by to watch a match, or planning an intimate dinner for two with a unique gastronomic experience into the

you might need more or less of, depending on how many orders you have. These are the things your business will need to create jewellery. Don’t worry about numbers at this stage – just write down things as you think of them.

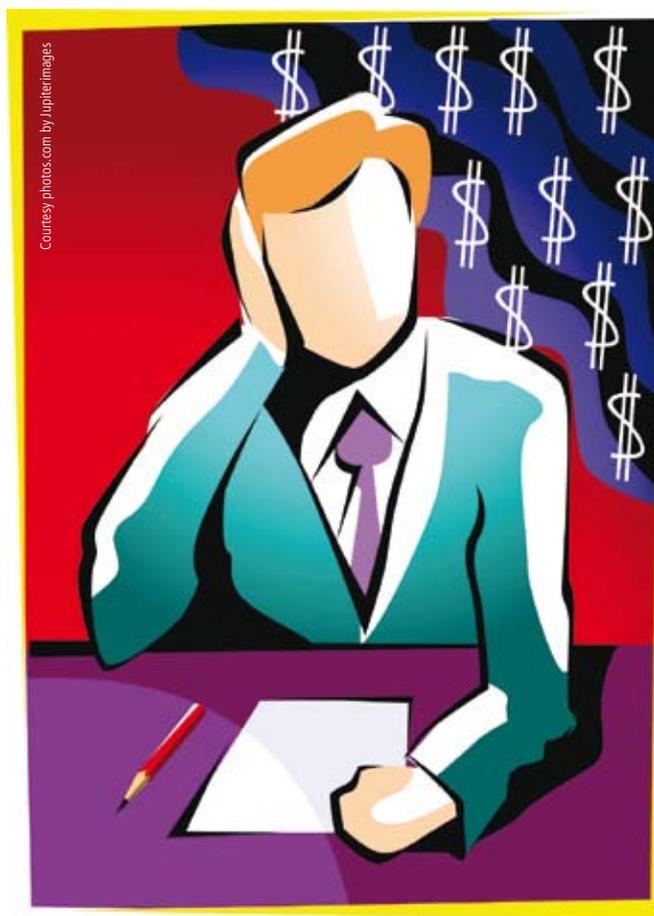
You should now have two lists: one with things that you need every month, and one with things that may change, depending on your orders. The first list is called fixed costs and the second list is called variable costs.

Let’s have a look at the first list. Some of the things that should be there are rent, salaries, telephone, computer access (Internet and e-mail), water and electricity (if not included in rent), repayments on any equipment (if you bought them on HP or lease), cellphone and petrol.

Your variable costs should include items that reflect things which are used (consumed) during the production of jewellery. Although my knowledge of this is very little, I imagine that the list would include things like the metal used, gemstones, cleaning materials as well as tools that need to be replaced quite regularly.

The main problem that many might have with these lists is that you are not always sure exactly how much your telephone bill will be each month. Does this not make it a variable cost? Well, strictly speaking, the cost does vary from month to month; however, you will spend money on it every month, no matter how much you produce. The rule of thumb is that – at this early stage – all costs are variable and by separating them, you make your life a little easier. Just ensure you don’t list the same thing on both sheets.

Now, start putting numbers next to the items on both lists. This should be fun! ■



soul of Tuscany, you’ll still need to know what ingredients you have and what you need to buy.

Start drawing up your budget “shopping list” for your business. Make your life easier by separating things you’ll need every month – essential things that will stay unchanged – and write these on a sheet of paper. On another sheet, list things which

It is now time for you to figure out exactly how much money to allocate to each of your listed expenses. In fancy terms, they are sometimes called "line items".

Let's look at the easier ones first. How much do you normally spend on your cellphone every month? Not sure? Are you on a pay-as-you-go option? Well, how many times do you recharge and with how much each time? Even if your figure's not exactly correct, put it down on paper. There is no way you can draw up an accurate budget first time round, so have an educated guess. Many people treat budgets as inflexible barriers to limit spending. However, at this stage your budget is as flexible as a cooked piece of spaghetti. It is a guesstimated budget. In time, when you get to know your costs a little more accurately, you can make more accurate predictions about how much you are going to spend on certain things.

Do the same for all the other line items on your list. There are, however, two that I want to look at specifically.

Rent is a particular issue when starting up your own business, whether you're starting up in your own garage, or in the spare bedroom. My suggestion is to allocate rent, even if you don't end up paying it. Sooner or later you're going to have to start paying rent, so you might as well start taking it into consideration now. It will help you to get a more accurate idea of how much your pieces cost to make.

What about your salary? This is an incredibly difficult thing to answer – in essence, you are asking yourself how much your time is worth. Some people opt not to draw a salary from the business, but simply draw money when they need it. This is never a good idea. If you are planning on starting your own business soon, I would suggest starting it correctly. The money

IT'S A NUMBERS GAME

How much money will your business need to earn in order for you to be able to pay all your expenses?

in your business belongs to your business. The money in your personal bank account belongs to you. It doesn't matter if you're the only person your business employs – as soon as you start a business, you have to divide yourself in two. There is the ordinary, everyday person that your friends and family know and love, and then there's the business owner. Both have bank accounts and that is why the business owner in you has to pay the normal you a salary every month.

Are you beginning to feel a bit schizophrenic? Imagine how you'll feel when you have to conduct a performance assessment on yourself as motivation for an increase that you don't want to give.

Your salary is probably one of the most difficult things that you will need to budget for. Obviously, you will want to pay yourself a good wage, but how much?

I would suggest that you do a bit of shopping around. Speak to friends and colleagues involved in the same area as you and ask what someone with your experience should expect to earn in the commercial world. Take that amount and subtract a third. "Why?" I hear you ask. "I am doing all this

extra-hard work and then I have to earn less? I don't understand."

Let me see if I can explain. Your business is just starting up. The last thing you want to happen is for the business to go belly-up because its wage bill was too high. You also have to make sure that you earn the salary that you have awarded yourself. By giving yourself a smaller salary initially, you give your business a little breathing space to make sure it has enough cash-flow to pay yourself. By ploughing money back into your business, you also give the business an opportunity to pay you a salary even when times are tough. So start now, and build those financial reserves. Only give yourself an increase in a few months, once you have a more accurate idea of how much your business can earn.

Always remember that you are building a business, not just employing yourself. If you are only interested in your salary, then you should be looking for a job, not looking to build a business.

Now that you have figures next to all of the items on your list, add them up. See that big number at the bottom of the page? That is your total fixed costs. That is how much money your business has to earn every month, even if you don't make or sell a single item. Quite shocking, isn't it?

Remember this figure. It's going to be rather important.

Many of you will know how to cost your raw materials and your consumables. These are probably the most expensive items on your variable costs list. You will know what percentage of metal to count as a loss percentage in making a piece. And as we've already said, the variable costs change depending on how many pieces you manufacture.

So, now let's add the two sheets together and see what the grand total will be... ■

ADDING IT TOGETHER

You might need to make modest changes to your costing or change your jewellery "menu" slightly. However, it is better to build a business with a good financial foundation than opt for a weakened structure that cannot grow and prosper.

At this stage things are still quite simple, as you are the only employee. So technically, you are the only one to take into consideration when it comes to costs. However, the problem is that because you are the only employee, you are also the

only source of income for the business. So, while the business has to pay you, in turn you have to earn money for the business.

We know how much you cost the business – your salary. But how much do you have to earn for the business to be able to pay

yourself? Definitely not the same amount as the business has costs – the costs you just wrote down on the two sheets of paper.

Take the fixed cost total that you have written at the bottom of the page (the important figure that I asked you to

remember). Divide it by 20. Divide the answer by 8. Write next to this figure in big letters – “hourly cost”.

The answer is the minimum amount of money you have to earn for your business, every hour (excluding raw materials) for your business to break even.

Now here comes the scary calculation – pretend you are going to manufacture a piece. Choose a typical piece that you would envisage your business selling. How much will the raw materials for this cost? Write that down. How much will the consumables cost to manufacture the piece? Write that down as well and add the two together. You now have the material cost of the piece. Not how much it will sell for, but simply how much your business will have to pay to get all the bits and pieces to put the item together.

How long will it take you to make the piece? Take the number of hours that you think it will take you and add on 10% just to be sure (a safety buffer). Multiply this figure by your hourly cost. Add this amount to the material cost of the piece.

This figure is the cost price for the manufacture of the piece. This figure thus excludes any profit.

Now ask yourself how much the piece will sell for in the marketplace. It will be necessary for you to first do some market research and see how much similar pieces sell for. Should you be significantly higher in price, there is a problem. Let me illustrate this problem by telling you a true story.

I had a start-up jeweller as a client. She manufactured a ring to sell, not to a specific client, but as part of her stock. She went through this exercise as I have described. The problem was that she ended up with a 6 g silver ring and wanted to sell it for R3 000. The raw material price at the time was in the region of R60. The problem wasn't that she was not a skilled jeweller, or that her work wasn't good. It was simply a case of her either spending too much time on the manufacturing process, or having her fixed costs were too high.

This leads back to the fact that your first budget is not a set of inflexible boundaries, but rather a rough guess as to your costs and your expenses and a pricing guideline. You have estimated the cost of one of your own pieces. If the guessed selling price is too high, either you need to spend less time on the manufacturing process, or you need to lower your fixed costs. So go back to your budget and see what changes you can make. Keep on doing this until you get a piece that is priced about right.

If your guessed price was too low, then you might have omitted counting something, or you need to increase your fixed costs – you can even start by increasing your salary. Although this might sound a little complicated, it is a process that you do every day – just in fields other than your business. Remember the meal you were planning for friends? Do you still have your (imaginary) shopping list? Let's go shopping!

Perhaps one of your ingredients is olive oil. Let's say you go and search for olive oil and there, in front of you, are 16 varieties. You buy a big bottle of the best. However, by the time you finish shopping for all your ingredients, you realise that you don't have enough money. You then start to reprioritise. Do you really need all of the ingredients? Perhaps you do. Is there any way you can decrease the cost? What about looking for substitutes? Can any of the items be replaced with cheaper variations? Do you need so much of every item? Perhaps you can reduce the amount of some of the goods – like buying a smaller bottle of olive oil.

Slowly you go through your basket and make changes, substitutions and alterations. Eventually you end up with all that you need fitting your budget. And should worst come to worst, you can change your menu by serving chips and dip instead of caviar on toast.

There is no harm in changing your menu – you just have to make sure that your guests will enjoy the food.

Similarly, you might need to make modest changes to your costing – tweak amounts here and there. Or you might need to change your jewellery menu. Remember – the purpose is to build a business. Rather build it with a good financial foundation than opt for a weakened structure that cannot grow and prosper. There is no harm in going back to the drawing board and starting again.

I told you last month that the hard work begins now. I didn't lie! ■

YOUR HOMEWORK FOR THIS MONTH IS THE FOLLOWING:

You'll be surprised how many businesses do not have operational budgets – not even a rough estimated budget carried in the mind of the business owner. By doing this exercise, you are one step ahead of many businesses out there. You now have a good idea of how much your business will cost you each month.

As always, there is some homework for you. Take your time to think through these questions – there are no correct answers – and write down your responses and ideas. Keep these in a file with all the other homework you have completed.

1. If you have not done so already, get two sheets of paper. List all of the things that your business will need every month to do business on one list and the things that your business will use up in the process of creating jewellery on the other.
2. Think about how much you need as a salary and include this in the first list.
3. Read through this series of articles again and follow the instructions, until you get a costing that works for you.
4. Save this final calculation – it will be the basis of your cash flow statement for your final business plan.

NEXT MONTH

Next month we will look at the ups and downs of other aspects of a business. Remember to send questions and queries to: articles@spi.org.za. ■