STARTING YOUR OWN BUSINESS

The Jewellery Council of South Africa

MINING QUALIFICATIONS AUTHORITY

WHAT'S THIS ABOUT?

Welcome to the eighth instalment.

This series of articles, kindly supported by the Mining Qualification 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 eighth 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 do so 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.

Last month we looked at systems and developing systems that were appropriate for your business. This month we'll be looking at developing one particular system that every business should have – risk management systems.

Figures regarding small business failures are bandied about all the time. Some people say eight in every 10 small businesses fail within three years of starting up. Others say it's two in every three. What we do know, however, is that small businesses fail because the owners don't manage them properly or close their eyes to various risks that they face.

Risk management is something that most small businesses think belongs only in the large corporate world. The owners of successful small businesses don't realise that one of the things they do on an ongoing, daily basis is take and manage risks. They have developed their own internal and often unrecorded ways of dealing with these risks. Sometimes, if they just took the time to sit down and look at the risks they take, they might come up with a better and less risky way of doing business.

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 now works for Insight Strategies (www.insight-strategies.net).

TO RISK OR NOT TO RISK?
THAT IS THE QUESTION

"Most people would rather be certain they're miserable than risk being happy." – Robert Anthony

We dealt with the whole concept of risk in the very first series of articles. I told the story of a couple of skateboarders; one who seemed to take risks and yet performed the most extraordinary tricks, and the other whose tricks were a little more pedestrian, and yet practised until they were perfect. That whole discussion of risk was centred on the personality type of the business owner. As explained in the article, all of us take risks – every day. However, for many people, the risks taken by a small minority are often perceived as being too much – even in the light of exceptional returns.

One of the most interesting things about running your own business, in my opinion, is the reaction that many other people have to your apparent courage and bravado. You know how it is when you do something that goes against what other people regard as normal.

When you tell people that you own and operate your own business, for many the reaction is something along the lines of: "Oh, that's very brave of you" or: "So you're going to run your own business until you can find another job?" However, for me perhaps the most common and yet the most unrealistic statement is something like: "But why? Thats so risky."

This whole idea of risk is tied to an individual's level of comfort and their ability and capacity to be able to overcome challenges. Where a lot of people go wrong is when they're in a comfort zone and their ability to identify and plan to overcome challenges is whittled away. In many cases the comfort zone is created by people, because they want to be able to feel secure. Does this sound a little far-fetched? Have a look at what's happening around us right now. How many people do you know who have either lost their jobs in the last six months, or are in fear of losing their jobs?

It's one of the strangest things. You start your own business, you plan and work hard and perhaps end up having a cash buffer of a few months' salary in the bank. This is perceived as being risky. On the other hand, you could accept a job from someone else, work hard for them and face the risk of being given a notice period of one month. If you end up being retrenched and the company is in a position to be able to pay you, all they need to offer you is a minimum retrenchment package.

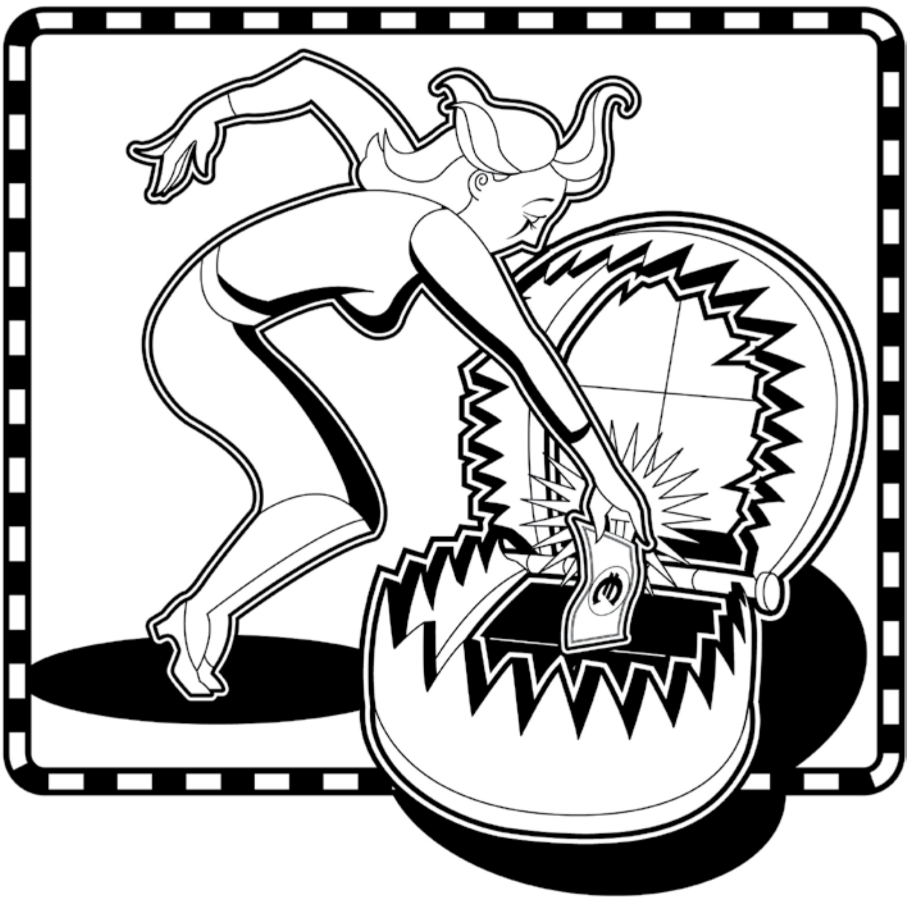
Now, which one seems riskier? Placing your job security in the hands of someone else or controlling your own job security? And the salaried individual thinks that the self-employed are embarking on a risky path! The person drawing the salary thinks he or she is safe and not taking a risk, but all they have is the certainty that they are employed at that time.

But all of this is not to say that starting your own business is without risk. Not by a long shot. There are risky aspects of starting your own business around every single corner. And even after your business has been running for a number of years, there are risky aspects to operating.

However, the advantage of running your own business means you can do something about this risk. To ignore the risk, think that it doesn't exist, or hope that it will go away is playing the same game as the person who is employed and hopes that the company won't close down and they won't be retrenched. It's closing your eyes to something and abdicating responsibility. Instead, a central component of successfully running your own business is clearly identifying these risks and planning what you will do if they become a reality.

The fancy name the management consultants give this process is "risk assessment and management", or "risk mitigation." In slightly less fancy circles, they might call it "contingency planning", (although this involves planning for the upside as well as the downside).

The successful small business owner calls it common sense. Oh, and while you're identifying the risks and planning what you will do if any of these things happen, there's nothing that stops you from closing your eyes and hoping that they won't! ■



Courtesy photos.com by Jupiterimages

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.

MQA

MINING QUALIFICATIONS AUTHORITY

Chief Executive Officer
Livhu Nengovhela

Chief Operations Officer
Florus Prinsloo

Chief Financial Officer
Yunus Omar

Executive Manager Corporate Services
Darion Barclay

Skills, Development & Research
Meryl Plasket

Finance Manager
Mfundo Mdingi

Customer Services & Communication
Merle Clark

Learning Programmes
Thapelo Madibeng

NSF
Xolisa Njikelana

Standard Generation Body
Valaine Nel

Education Training & Quality Assurance
Jay Moodley

Projects
Lulama Manyadu

PREPARING TO LOOK

BEFORE YOU LEAP

When things go wrong in your business – or when you think that things *might* go wrong in your business – the last thing you should do is carry on acting as if nothing is wrong.

Where do we start with this whole business of identifying and trying to control the risks that our business, and by extension ourselves, are exposed to? As always it's a good idea to know the business you're involved in. No, not the sector of the business you're involved in. What makes it work? What areas could do with a little strengthening? What are the parts of the business called Joe's Jewellery (insert your own business' name here) that make you break out in a sweat at three o'clock every morning?

When you can answer some of these questions, you have the beginnings of a list identifying the risks that are real to your business.

There is a reason this article appears after last month's, where we talked about developing systems that were appropriate to your business. If you've done the homework, you will have the beginnings of understanding where your business' strengths and weaknesses lie.

I think I've mentioned it before – I like bread. I don't only enjoy the taste of bread, but also the different textures of the different types. I enjoy crusty bread. I enjoy soft, chewy bread. Of course, I also enjoy the wonderful smell of freshly baked bread. So much so that I once embarked on my own bread baking adventure.

I chose one of the simplest recipes to try out first. It was a white, rectangular loaf. And when it emerged from the oven, it was spectacular. I couldn't wait for it to cool down. I placed it on the breadboard, took the knife and sawed off the crust. Mmm, my mouth is watering as I write this! After a couple of these successful attempts, I decided I would experiment.

I opted for a brown wholewheat loaf, perhaps with extra seeds, because as you chew down into those they add a little "pop" in your mouth. I got all the baking utensils lined up. I made sure I had all the ingredients. I propped up the recipe in front of me, and got creative. The aroma from the yeast was wonderful. The texture of the dough in my hands warmed a little bit of my heart. Soon I was able to place the dough into the baking tins and waited patiently for my next marvellous creation. The scent of baking bread soon permeated every part of the house. And at the end of the baking time, in great anticipation, I opened the oven door.

What a disaster!

It seems that the yeast had been a little over-enthusiastic in performing its role. Instead of rising beautifully from the tin and creating a magnificent curved crust, the dough had taken on a life of its own. It had begun by emerging from the tin, and then egged on by the rising agent, the yeast, sought to colonise other areas of the oven. Not content with spreading itself over part of the baking rack, the dough had cleverly engineered a way to drop onto the bottom of the oven. Perhaps anticipating that it would be removed, it had decided to entrench itself by turning into a formidable, black, immovable obstacle on the oven floor.

"Oops! I must have done something wrong."

I assembled the new batch of ingredients and followed the recipe again. *Voilà!* Four hours later I had a second formidable, black, immovable obstacle on the oven floor. And this time the wonderful aroma of freshly baked bread was edged with a slightly sharper smell of burning dough. Having the mindset that I do (some say I'm stubborn, others are more polite and say I'm just a little slow), I cleaned everything and set off for a third attempt – with exactly the same disastrous results.

What has all of this got to do with risk management? Well, it's quite simple, really. The disastrous bread-baking adventure is a cautionary tale of how not to manage your risk.

There are a number of variables that could have impacted on the process. What I should have done was try and narrow down the possibilities of what could have gone wrong, and try to fix the thing that I thought was incorrect before starting again.

Imagine the list. First of all, there was the recipe. There are a number of steps in the recipe and I could have misread or misinterpreted any one of them. Or there could have been a misprint and one of the steps might have been omitted. Or perhaps the recipe had been written to bake bread at sea level, and – being in Johannesburg – this proved to be a little difficult. Second on the list of variables were the ingredients. It could have been slightly too much or slightly too little of any one of these. Or perhaps some of the ingredients were slightly old. Third on the list of variables were the equipment and the process that I followed. Maybe the baking tin that I used was too small and so the dough had nowhere to go and was forced to try to colonise the rest of the oven. When I had left the mixture to prove, maybe I had left it too long or perhaps I had not left it long enough. Using an electric oven in South Africa can be a challenge at times, as anyone who has sat through an unanticipated blackout will testify. There might have been an episode of load-shedding during the baking time and the oven had not maintained a consistent temperature.

The point is, there were so many things that could have gone wrong in the process, from the preparation phase to the final phase of opening the oven door, that before I had tried a second and third attempt, I should have tried to identify what went wrong the first time round.

Planning and implementing a risk assessment and risk management process is much the same. When things go wrong in your business – or when you think that things *might* go wrong in your business – the last thing you should do is carry on acting as if nothing is wrong. In other words, don't try to bake the same loaf a second or third time.

What you need to do instead is sit back, look at the situation, identify the variables and see if you can find out which one of the many components or processes have broken down. Once you've done that, you fix it and start baking your bread again. ■

IT MIGHT HAPPEN TO ME

Take a second to reflect on possible scenarios which might cause your business to close down.

In your business you are not baking bread. You are making jewellery. And your business is a lot more complicated than simply mixing quantities of flour, water and yeast together. Your business has a number of different processes, and it involves metal, stones, machinery, equipment, cash flow, marketing, client liaison and, of course, the most important part – making jewellery. So how do you assess your risk?

I think the most important point to understand is that this is not something you do one time only. A business is an ongoing, dynamic and changing environment. As a result of this, the risks of any business are also changing and ongoing. So when you decide to assess the risks that your business is exposed to, and then plan to do something about managing them, you need to make sure that the risks are current.

What do I mean by that?

Imagine a brand-new, start-up business. The risks that it is exposed to are very different to the risks of a business that has been around for 10 or 20 years. Even if the risks are identical (for example, both a start-up business as well as an established business in the jewellery industry face the risk of the metal price going up or down) the ways in which each business will manage the risk will be different.

Take a look around your business. Look at what assets it has. Look at the client list. Have a look at the income and expenses for the last few months. Now, take a deep breath. Imagine your business closing down.

What caused it to happen? You have just had a look at your business: it has assets, it has clients, and it has income, expenses and cash flowing through it. And yet here you are, closing the door for the last time. Why?

Take a piece of paper and write down every reason that you can think of that may cause you to close down your business. Maybe it was because your clients did not pay on time; maybe it was because you manufactured a special piece for a client and now you can't get hold of her. Perhaps although you have lots of stock, and your pieces are beautifully made, no-one bought anything. Perhaps people loved your pieces and placed a large order, but you couldn't cope with such a huge demand and had to turn them away. Perhaps you have been so busy marketing your business, designing and making pieces, selling, invoicing and banking money that you forgot to pay your bills, and the bill collectors came knocking. Maybe you bought too much metal. Maybe you lost too much metal in the manufacturing process, cutting into your profit margin. Maybe your workshop was broken into and your stock was stolen.

See how complicated it can get? And I have just begun to scratch the surface of reasons why businesses close down.

If you are struggling to think of situations where your business might end up as a victim, I suggest that you go back to your homework and have a look at the section where you identified areas in which you were strong and areas in which you thought you might need some assistance. This latter section might give you some clues as to where your business is weakest. And this, in turn, might prompt some ideas about what might cause your business to close down. As always, be as specific as you can. In other words, rather than simply writing "cash flow", when you really mean that clients didn't pay you on time, rather write "clients didn't pay on time".

Oh, and don't get sidetracked with the "it won't happen to me" argument. Just write everything down. For example, I've mentioned that perhaps your workshop was broken into and your stock was stolen. People might be tempted to say that this would be impossible, because they have fantastic security, armed guards, rabid Dobermans, immobilising gas, a walk-in strong room and a hotline to the National Police Commissioner. My response to this group would be that the chances of a break-in at a workshop would be highly unlikely, but not impossible. Bear with me for the moment. Just write everything down.

In this, as in so many other things in planning a business, do not try to do everything at once. Give yourself a certain time limit, maybe half an hour, when you can sit down to do some of this work. Then come back the next day for another half an hour and carry on with it. ■

Courtesy photos.com by Jupiterimages

DON'T DESPAIR, ALL IS NOT LOST

It is now time not only to identify possible risks, but to mitigate them.

I can imagine how you feel. You are sitting looking at the list that details everything that could go wrong in your business, and you're thinking: "Why bother?"

Remember one thing about this list – it's reflective of your own personal risk profile. In other words, it is things you have identified that you think might be a threat to your business. What you see in front of you is what could happen to your business, in a worst-case scenario. But what is the likelihood of a worst-case scenario? Well, that is what we are about to find out.

Take another piece of paper, and divide it into three columns. At the top of each column, write the following words: Low, Medium and High. What you're going to do now is look at your full list of potential threats to your business and divide them into three categories. These categories reflect the likelihood of the listed events taking place.

You might have listed metal price fluctuation as one of your potential threats. I can say with relative certainty that the metal price is going to fluctuate – it does so every day. So if you've listed metal price fluctuation as a potential threat, you'd now re-write it under the "high" likelihood column. If you have a secure workshop, similar to that listed on the previous page, then the chances of being broken into are quite low. So risks such as burglary or theft you would place under the "low" likelihood column.

Now go through each listing on your page and decide whether it is likely to happen, whether it might happen or whether it's unlikely to happen. Do not list things under the medium likelihood column simply because you can't decide whether it's a high or low possibility. Rather put an asterisk next to the listing and come back to it when you finish the rest of the list.

Don't try to do all of this at once. Go through the list slowly and seriously consider each of your risks. You might end up with a table similar to the one on the right-hand side of the page.

Once you've got this far, you need to decide which of the risks could close your business down and which of them might simply prove to be a hiccup in your normal business operations. In other words, you need to be able to prioritise the risks. Which risks will have a devastating impact on your business and which will be negligible?

While you can choose to do this with all the risks that you've listed in the table above, it is usually not important to try and prioritise the risks that you have already said are unlikely to occur – the ones listed under low likelihood. So most risk assessments concentrate on the medium and high likelihood risks.

The easiest way to do this is in a table format. On the left-hand side of the table, you identify whether the risk is medium or high. In the remainder of the table, you show what impact this risk will have on your business – a negligible impact, a medium impact or a devastating impact. So, again, you might end up with a table similar to the one on the next page.

Low Likelihood	Medium Likelihood	High Likelihood
Theft	Sitting with large amounts of stock	Metal price fluctuation
Customers don't pay on time	Load-shedding causes miscasts	Not enough capacity to complete large orders
I forget to pay my bills		
Customers don't like my designs		

See how much more manageable this is? You've moved from having a long list of risks, which was quite depressing to look at, to ordering and prioritising in the risks so that you can see which ones to address first.

In the table above, obviously the most important risks that you need to take into consideration are the ones on the extreme right-hand side of the table. These are the ones that could destroy your business. The next important ones are those that have a medium impact. Although they may not destroy your business, they could hurt it severely. The negligible impact risks still have to be managed, but they are managed on a day-to-day basis, in the general running of your business.

So the third and final step in this process is to prioritise action and to come up with some way of coping with the risks identified in the medium and devastating impact columns. I suggest you come up with two coping mechanisms for each risk: an immediate or short-term coping strategy and a medium or longer-term coping strategy that you will be able to plan for and implement over a number of months.

If you decide to identify your coping strategies in table form again, you might end up with a table similar to the last table.

	Negligible Impact	Medium Impact	Devastating Impact
Medium Likelihood	Load-shedding causes miscasts	Sitting with large amounts of stock	
High Likelihood	Metal price fluctuation		Not enough capacity to complete large orders

Congratulations! What you have just managed to do is not only identify potential risks to your business, but also ways of mitigating them. You've also moved one huge step forward in the business planning process. Identifying these potential risks has consequences for everything, including a cash flow and your systems processes, but perhaps most importantly, you can begin planning to ensure that these high-risk scenarios never become reality. ■

	Immediate	In six to 10 months
Not enough capacity to complete large orders	Don't take orders for more than 50 g of metal a month.	Start developing a network of colleagues you trust and can rely on to deliver quality work. Meet with them regularly and suggest some method of sharing work.
Sitting with large amounts of stock	Don't produce anything other than what was ordered. Take photographs of previous orders to showcase as portfolio pieces.	Depending on cash flow, have a small number of pieces (total max 20 g) to showcase as portfolio pieces.

DROPPING YOUR RISK PROFILE

Remember, going into business for yourself is risky. But it's not as risky as putting your future in someone else's hands.

Any business, no matter what size, faces risks on an ongoing basis. The successful businesses identify what these risks might be and plan to either avoid them, or strengthen their business at just the right points so that the impact of the risk is minimised.

What you need to do to be a successful business, instead of pretending the risk doesn't exist, is keep your eye on the risk and steer your business around it.

The coping mechanisms that you design for your business need to feel comfortable. Because all of our personalities are rather different, the strategies that we designed to cope with the risks we face are also different. Because our businesses reflect the people we are, the ways that we devise for businesses to cope with risk will reflect the people we are as well. Don't be tempted to take on the risk strategies of another business. Ultimately, this is *your* business, and you need to feel comfortable in everything that your business does. ■

YOUR HOMEWORK FOR THIS MONTH IS THE FOLLOWING:

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.

Follow the process outlined in this series of articles to identify and mitigate against risks that your business might face.

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