

Submitted to: Whom it may concern

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# 1. Summary

This handbook has been prepared for those who seek to corporatize their skills, and for those who are prepared to take the risks and responsibilities of being in charge of their money and their power (rights) for the rewards and satisfactions that result.

This is not for the feint hearted and favours those with some form of vision in respect of their skill set.

Corporatization is a process transforming

From: a circumstance where income earned by a skill that is paid to the skill

To: a circumstance where income earned by a skill is paid to equity (a company) owned by the skill

# 2. Corporatization

2.1 What is corporatization?

2.2 Basic philosophy behind corporatization

2.3 Why corporatize?

2.4 Where is corporatization used?

2.5 When is corporatization applied?

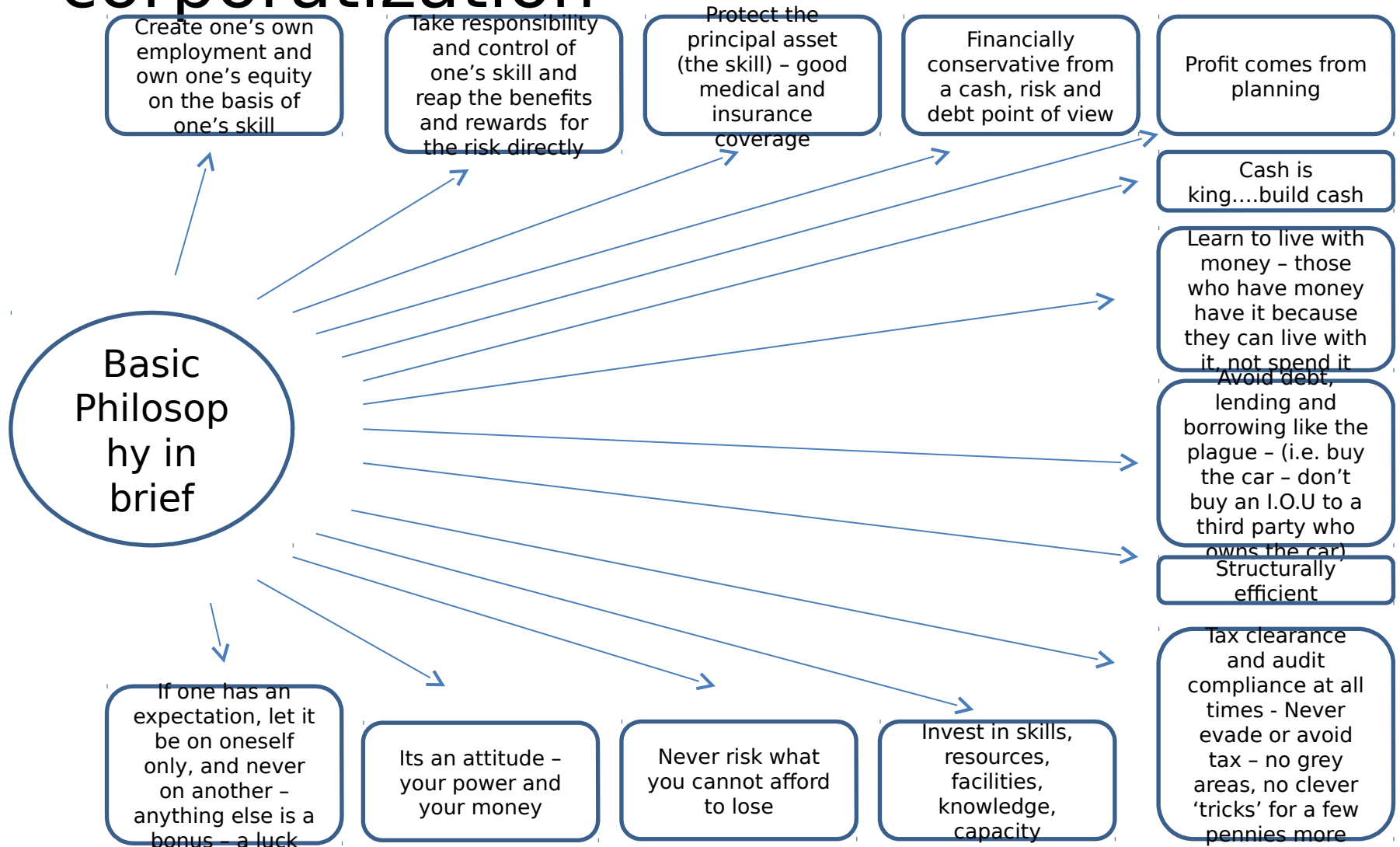
2.6 What is needed to corporatize?

2.7 How does corporatization work?

# 2.1 What is corporatization?

- One way to
  - create one's own employment – lifetime employment
  - start a business
  - to create value and a pension
- Transforming from a circumstance where
  - income generated by one's skill is paid to one, to:
  - a circumstance where income generated by one's skill is paid to equity owned by one's skill.
- Avoiding the pitfalls and obstacles of I.O.U's in the form of debt, loans, finance, special purpose vehicles and the like
- The separation of one's skill (read self) and one's business
- Adopting the right to make the call...to decide.....and the responsibilities and risks that go with such call
- It is not about the power and the money, its about “who's power?” and “who's money?”
- Job creation and joining the national 'grid' (being a tax payer)
- New equity and value
- Lifetime employment

# 2.2 Basic philosophy behind corporatization



# 2.3 Why corporatize?

There are many reasons why a skill would corporatize, including:-

- To control and direct one's time, effort, equity, employment and to a certain extent one's creative destiny
- The power and the money
- To operate efficiently
- To reduce risk and liability
- To increase net earnings
- To create one's own job around one's skill-set
- To build cash and value
- To offer a sustainable service
- An efficient method to create value and interact in the market place
- To have an employer
- To create a vehicle to own one's intellectual property rights
- VAT
- Customized benefits

## 2.4 Where is corporatization used?

- Throughout the arts, entertainment and presentation services sectors
- Technical and production sectors
- Intellectual property sectors
- With any skill set for which there is demand
- Artisans
- Specialist skills
- Any freelance skill in most sectors



## 2.5 When is corporatization applied?

- When one is not an employee of any one in particular
- When one is a legacy industry i.e. one has intellectual property rights as an output of one's effort, labour, judgement and skill
- When one has a specialist skill
- When one is prepared to be accountable for one's energy and to reap the rewards and risks of the effort, and to do so in an organized way
- When one's business is being operated through a personal bank account or a 'trading as' bank account
- When one's freelance skill is being operated through a personal bank account
- When there is no tax efficiency in respect of the trading of one's freelance skill set
- Starting a business based on one's skill
- When one needs monthly financial reports to know where one stands

## 2.6 What is needed to corporatize?

- One's skill
- A current deployment of one's skill for income (in one or more places) – i.e. some cashflow
- Customers... a market of demand for one's skill
- Someone to assist the four phases of corporatization and draft, sculpt and see to the implementation the architecture and strategy and the money to pay them
- An Auditor
- The money, in whole or in part, to start a company and engage the auditor
- Clarity of purpose in respect of one's skill
- Skill capacity to carry the purpose through
- The will (and discipline) to implement the purpose

# 2.7 How does corporatization work?

2.7.1 Points to note about corporatization

2.7.2 The four phases of corporatization

2.7.2.1 Set up

2.7.2.2 Separation

2.7.2.2.1 Identifying time, effort, value and income drivers

2.7. 2.2.2 Separating the business

2.7. 2.2.3 The cost up approach

2.7. 2.2.4 Matching costs to the time, effort, value and income drivers

2.7.2.3 Admin and operations

2.7.10 Developing strategy that allies costs and drivers

# 2.7.1 Points to note about corporatization

- Understanding first the truth of one's costs (of life) before one translates them to costs to one's equity (company) as a business cost before identifying where the income to support such business costs, in what increments and mix, shall be sourced from and what strategy shall be deployed to meet those needs in what structure all things considered
- Implement the four stages a corporatization plan
- Understand basic business structure
  - Income
  - Costs
  - Profit
- Knowing who your auditor is
- Entails the setting up and owning of a business i.e. the responsibilities of entering into a contract with the State
- Learning the responsibilities and applying the contract
- Exercising discipline

# 2.7.2 The Four Phases of Corporatization

## 2.7.2.1 **Set-up**

This concerns issues that are attended to at the outset and deals with once. One sets up a company once, the bank accounts once, PAYE, Income Tax, VAT, SDL etc registration occurs once. The next three phases cannot be dealt with without completing set-up

## 2.7.2.2 **Separation**

This concerns the separation of the self from the business of the self (so to speak) from a practical and cost point of view. It is initiated by considering the basic business operating structure and applying a cost-up approach as opposed to an income down approach

## 2.7.2.3 **Administration and Structure**

This concerns the ongoing process of issues that need dealing with on a daily, weekly, monthly and annual basis. They primarily relate to the actions engaged in to support the business effort and typically may involve such issues as maintaining the schedule, paper traffic and communication between all parties involved, internally and externally

## 2.7.2.4 **Implementation Strategy to meet and beat the financial need**

This concerns the ongoing process of meeting the need of issues that relate to deals on all activities and areas where income opportunities actually exist, with particular emphasis on the four activities or five as the case may be

# 2.7.2.1 Setup

- Have a skill
- Have a name by which the skill can be located, identified and qualified
- Have a customer for the skill
- Identify and appoint auditor
- Instruct the company set-up and its MOI (Memorandum of Incorporation)
- Set up the company bank accounts
- Instruct auditors in respect of the company's registration with the State
- Contract and register the company's first employee
- The company's asset (including IP) register at the time
- Assignment to company of
  - Social media and URL
  - IP assets
  - Physical assets
- Develop personal and company budget, and input into twelve month future cashflow forecast
- Agree on monthly financial accounting and bookkeeping procedures with auditor

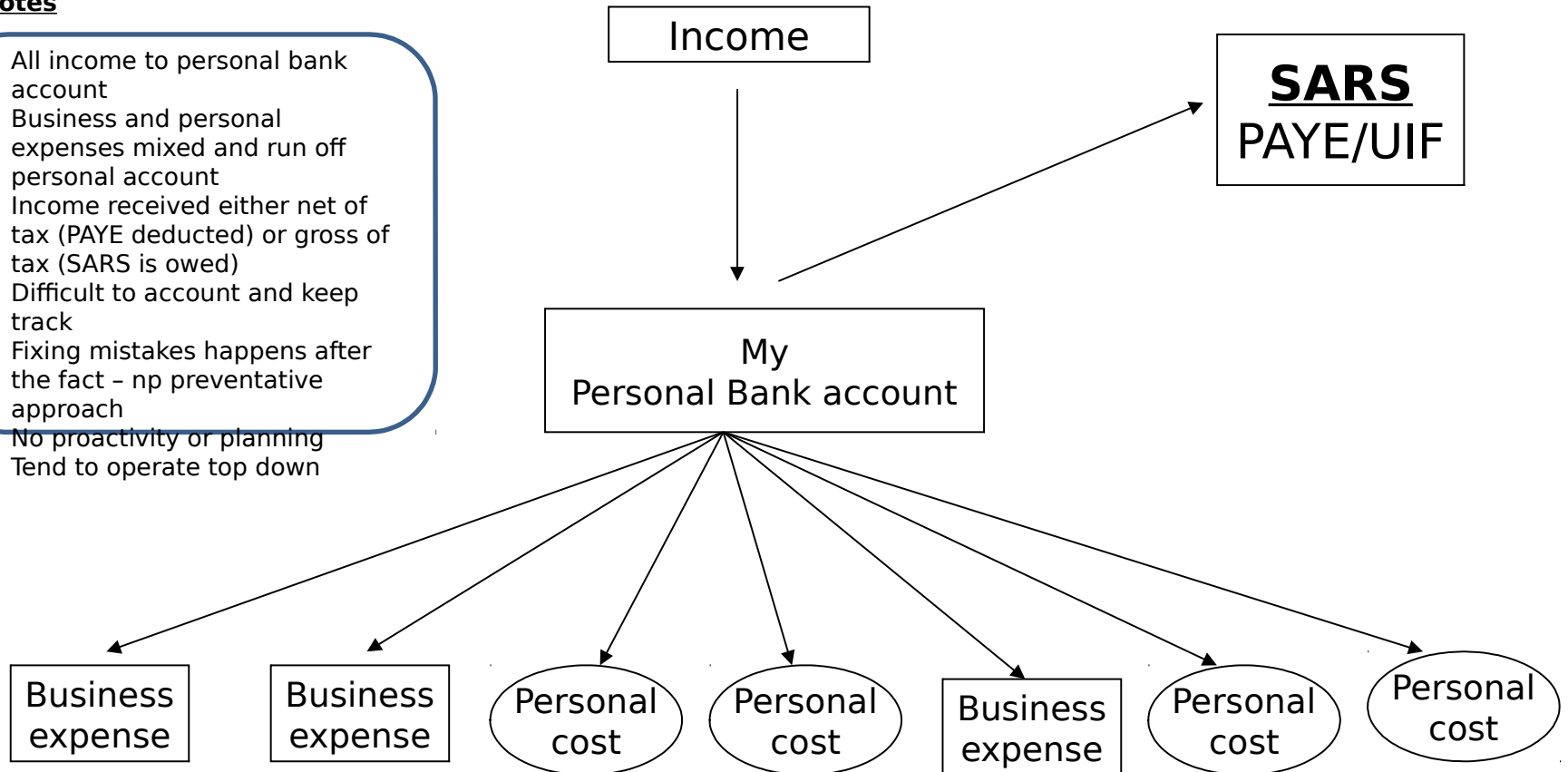
# 2.7.2.2 Separation

- The Freelance structure
- Separating the skill and the business
- The Corporatized structure
- The basic business operating structure
- The cost up approach
- Corporatizing – deploying the cost up approach
- Deploying the financial tools
- Identifying the income activities

# 2.7.2.2.1 From a Free-lance structure

## Notes

- All income to personal bank account
- Business and personal expenses mixed and run off personal account
- Income received either net of tax (PAYE deducted) or gross of tax (SARS is owed)
- Difficult to account and keep track
- Fixing mistakes happens after the fact - no preventative approach
- No proactivity or planning
- Tend to operate top down

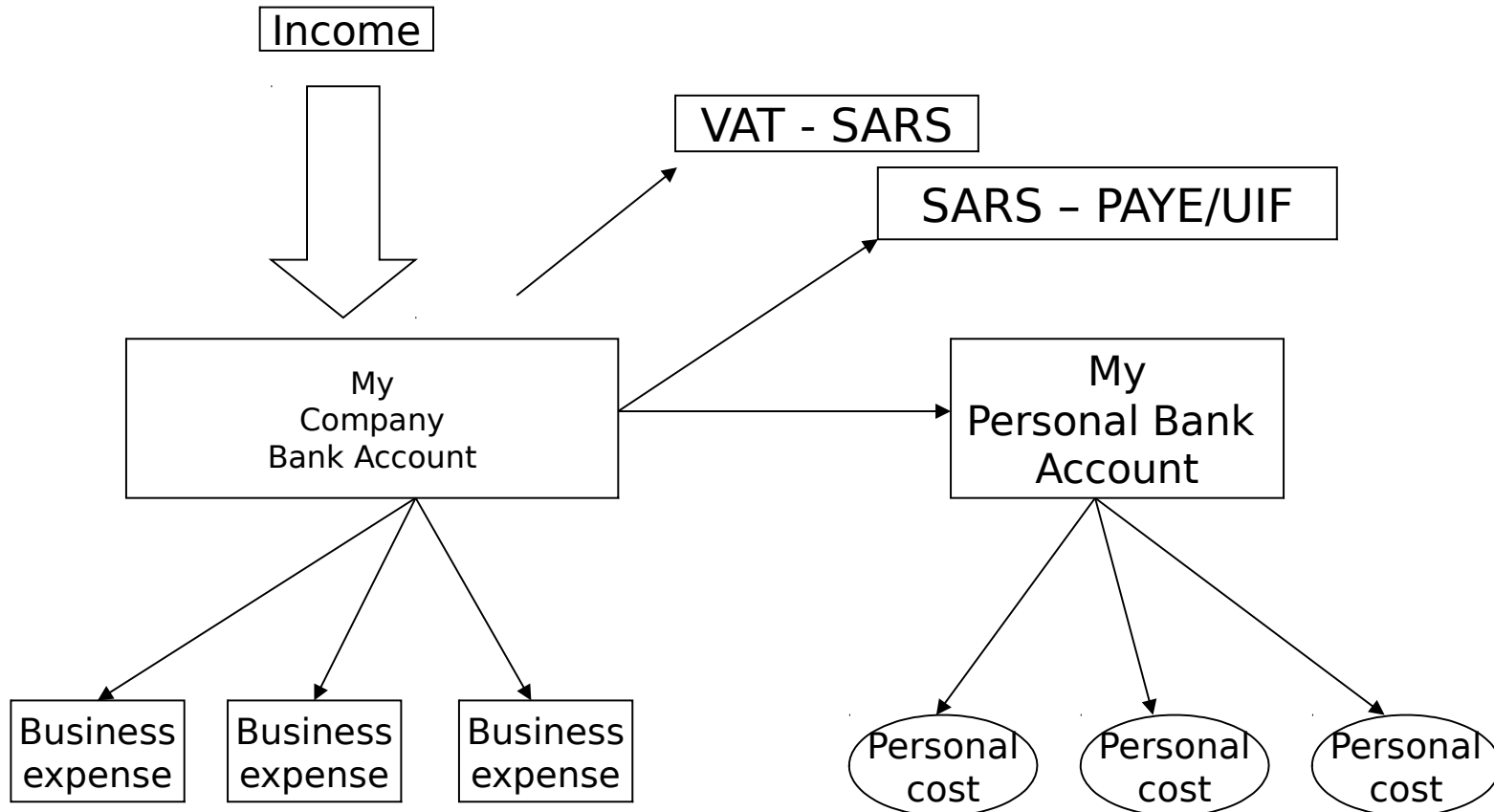




## 2.7.2.2.2 Separating the skill and the business

- Start with “In law a person is defined as a ‘natural person’ and a company is defined as a ‘juristic person’” – the two are separate
- The business pays for business costs from income to the business and the skill pays for personal costs from a salary
- The Skill and the Business are separate and dealt with separately
- Skill takes a salary and benefits from the company and such are a business expense
- Skill ceases using personal monies for business expenses
- The business does not use money for personal expenses of the skill, except to pay a salary and defined benefits
- One of the primary purposes of corporatizing is create top line employment for the skill
- Income earned by the company by deploying the skill does mean that all the monies earned are for personal use, there are business expenses to be paid

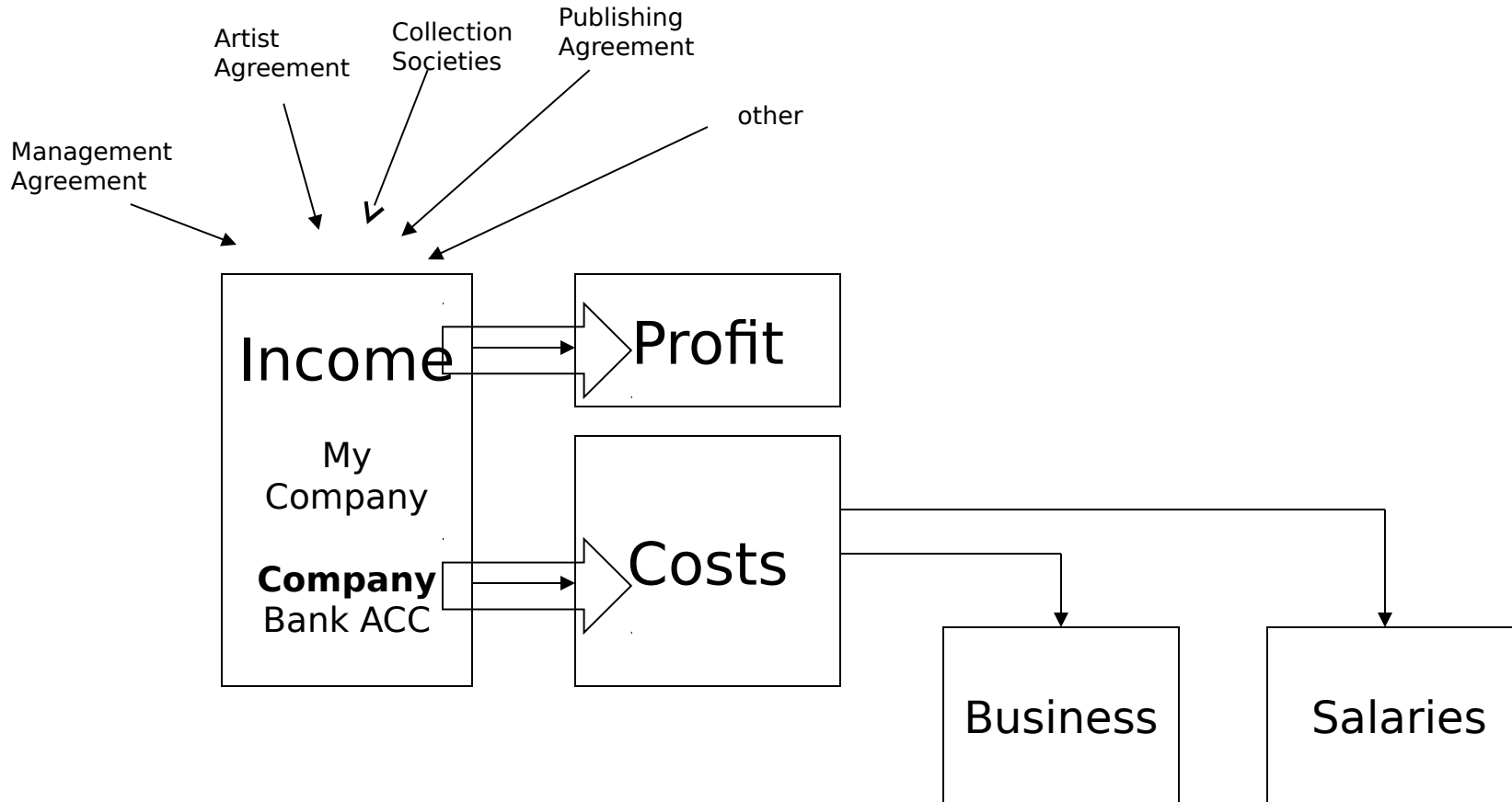
# 2.7.2.2.3 To a Corporatized Structure



## 2.7.2.2.4 The Income Down approach

- First understand the basic operating structure of a business, it offers it services and/or products to customers, earns income, pays for its expenses and tries to make a profit
- This is referred to as the “income down” approach. It often is associated with the approach that what ever earned is spent, with nothing left.
- The “income down” approach is also akin to a receiving a salary for instance, of a fixed amount. From that amount you must ‘manage’ your expenses and hope there is nothing out of the ordinary happening as far as your expenses are concerned
- To implement Corporatization, the cost up approach is used i.e. reversing the process from an approach from an approach of “how do I spend?” (income down) to “how do I earn?” (costs up)

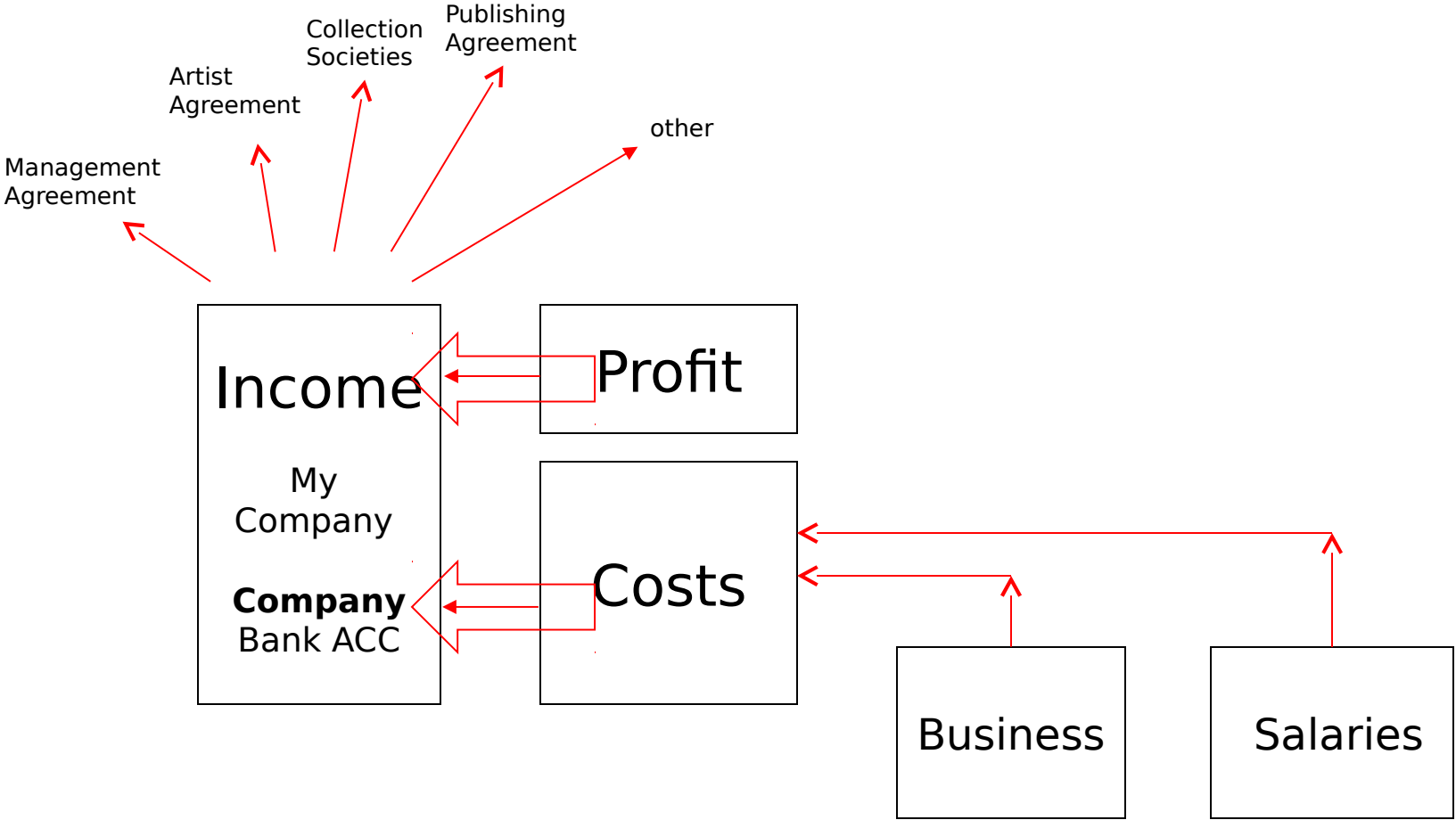
# 2.7.2.2.5 Basic freelance skill operating Structure - income down - Example - an artist



## 2.7.2.2.6 The cost up approach

- The approach instructs that one considers one's costs (reality) on a monthly basis first...all one's costs and draws up a budget in this regard with the costs first
- Point is establish what one's life actually costs...what one actually needs.
- What follows is the question as to where does one find/locate/secure the income to meet the need

# 2.7.2.2.7 Corporatizing - deploying the cost up approach



# 2.7.2.2.8 Migrating

- Tools used for the migration from a freelance structure to an corporatized structure are as follows:-
  - Cost up approach
  - Personal budget
  - Personal and company budget
  - 12 (twelve) month forecast - what you should have in your bank account in 12 (twelve) months
- Employment agreement with the company
- Review asset ownership (car, phone, laptops and other equipment)
- Cease receiving any payment in the personal bank account except from the company
- Relationships with personal bank account redefined and company bank accounts structured

## 2.7.2.2.9 Financial tools and method

- Personal budget (before corporatizing) \*
- Company & personal budget (after corporatizing) \*
- Twelve month cash flow forecast \*
- Submission to auditor
- Set-up accounting/bookkeeping structure, rules, financial reporting and method with auditor
- Implement and see auditor personnel monthly

\* See Annexures attached



## **2.7.2.2.10 Identifying the income activities in the form of time, effort, value and personal income**

- List no more than four activities where one earns/generates personal income on a monthly or regular basis. If more than four then add one activity entitled “other”
- Rank four activities (or less) in terms of financial importance with “other” last
- Detail the basic earning units per activity as net personal earning per hour/day/week/job/production or the like
- Add four activities (or five as the case may be) as income line items

# 2.7.2.3 Admin and operations

- Before completing the company budget and forecast, it is important to ask of oneself a number of questions related to the administration and operations of the business – the basics as they pertain to one’s skill and business
- Administration starts with the premise that there are tasks that must happen variously on a consistent basis, whether daily, weekly, monthly, quarterly, annually or otherwise and poses a number of questions
- Operations start with the premise that there are logistics to address in the businesses deployment of one’s skill and poses a number of questions
- One answers the questions on the corporatization plan, and the objective is to look at:
  - Operating Structure
  - Efficiencies
  - Critical Path – where does one start
- The answers determine and effect the costs to be included, or excluded as the case may be, from the budget.

# 2.7.2.3.1 Practical example ref administration and operation- 3 Phases

- Phase 1
  - Run operations from one's web-site using booking forms for all enquiries. Establish email addresses info@, bookings@ etc for business use
  - Direct social media business enquires to web-site
  - Use support from others to issue paperwork
  - Build company cash
- Phase 2
  - Add an employee - a personal assistant to the skill whose task it is to manage schedules and issue paperwork
  - Employee to work from a premises using company's email address
  - Build company cash
- Phase 3
  - Consider own premises and overhead costs....lease etc

## 2.7.2.4 Implementation Strategy to meet and beat the financial need

- This involves two actions primarily:
  - Matching cost requirements to activities
  - Developing a strategy that brings together income in the right mix (of each activity) that delivers enough income to meet and beat the financial need
- Following the cost up approach, it is now time to address the last issue, being the income required (to meet) costs and where and how such will be sourced and secured
- Once identified this is distilled in bullet points as a strategy for each activity

## 2.7.2.4.1 Developing strategy that allies costs and activities

- If one earns, by way of example, R5 000 net per performance and R2 000 per session and one's costs are R34,000 per month, then the strategy will define how many sessions and performances you need to do on a monthly basis, cash in (no IOU's) to meet (and beat) the budget
- One considers twelve months ahead, each month by month
- The income impact of other activities is added to the plan and the forecast

# 3. The Outcome

- The outcome can be summarized as follows:-
  - One's skill now owns a company and one now has an employer
  - One has clear idea of the costs of operating, and how to step up and deal with growth
  - One has taken the first step in recognizing that running a business is a 'team' game by engaging with the auditor
  - One knows exactly, all things considered, show be in one's company bank account in 12 (twelve) months
  - One has a strategy and a plan to achieve
  - One owns and controls one's money and power

# 4. The Benefits

- Secure employment
- On the grid
- Satisfaction
- Personal power
- Control
- Security and benefits
- Flexibility
- Minimal risk

# 5. The Risks

- The company bank account is not a personal bank account, albeit the power (signature) is the same for both
- Lack of discipline
- Abuse of personal power
- Living in 'Rome' without paying 'Caesar'
- Debt

- Living beyond one's means



# 6. Annexures

## 1. Business Strategy

## 2. Budget Personal

### 2.1 Personal and Company Budget (Before Integration)

### 2.2 Personal and Company Budget (After Integration & auditor review)

### 2.3 12 month Company cash flow Forecast