Business – it's Personal!!

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What was the biggest factor in your decision to go into business for yourself?

- Be your own boss
- Get out of the rat race
- Family Tradition
- Spare time
- Flexibility
- Money
- Entrepreneurial vision
- Freedom
- Better standard of living
- Social responsibility
- Independence
- Control

The point is, there's a range of reasons why people choose to start their own business. Interestingly a lot of the reasons are personal as well a financial. In fact, while money is often one of the reasons, it's rarely the only reason or the primary reason. And when you think about it, that makes sense. If it was only about the money, then wouldn't you be better off simply getting a well paid ''job" without the risk that comes along with business ownership.

That said, if you're in business to make money, **don't apologise.** Have you ever been to a presentation where the audience is asked why they're in business, and the *correct* answer is supposed to be "to help people."

First up, no one should tell you why you're in business, that's your prerogative. Secondly, most business owners need their business to be profitable. Now your business might be helping people, but make no apologies about the need to make money and pay your way.

As business owners however, we tend to focus on our *business* goals, and often neglect our personal goals and values, whereas they should actually underpin everything we do.

Understanding our personal goals and values actually helps us make our business decisions more easily, and more importantly make the right ones.

Success in achieving our business goals is only possible if they're in alignment with our personal goals. If they're not it can lead to internal conflict and effect your business potential.

So how do you align your business and personal goals?

It's best to start with the personal goals, then build the business ones around the personals, but ultimately they are interdependent.

We liken the process to building a house; the stages are the same as for building a business and like a house, if you miss a critical stage it can make a huge difference to achieving what you want out of it.

The Planning Stage

Like any good house, the real work is in the planning stage. Similarly, the best businesses not only plan their success, but re-visit their plan on a regular basis.

So, as mentioned earlier, you should start by identifying your *personal* values and goals.

Charles Kovess wrote an enlightening book called "Passionate People Produce" which gives some great tips on how to hone in on what's personally important to you.

If you take a look at the table below you'll note a host of personal goals and values – some identified by Kovess, and other by us. The list is certainly not exhaustive, but hopefully enough to get you started.

Love	**Courage**	**Determination**	**Perseverance**
Importance of family	**Holidays**	**Hobbies**	**Charity**
Persistence	**Success**	**Retirement**	**Loyalty**
Commitment	**Freedom**	**Passion**	**Challenge**
Competition	**Prosperity**	**Innovation**	**Health**
Stability	**Conformity**	**Contribution**	**Comfort**
Impact	**Personal growth**	**Growth**	**Achievement**
Caring	**Accomplishment**	**Intimacy**	**Power**
Control	**Being fit**	**Happiness**	**Friendship**
Inspiring others	**Fun**	**Vitality**	**Travel**
Intelligence	**Excitement**	**Investing**	**Creativity**
Cheerfulness	**Trust**	**Intuition**	**Being the best**
Acceptance	**Excellence**	**Harmony**	**Respect**
Gratitude	**Relationship**	**Recognition**	**Wealth**
Learning	**Intimacy**	**Pride**	**Discipline**
Confidence	**Strength**	**Flexibility**	**Self esteem**
Adventure	**Honesty**	**Choice**	**Integrity**
Equality	**Hard work**	**Importance of team**	**Individuality**
Sense of community	**Simplicity**	**Group vs the individual**	**Making a difference**

The first step is to take this list and mark the 10-15 that are *most* valuable to you. Now you might feel that most of them are important to you, but you need to choose the ones that are more important to you than others.

Once you've decided, rank them in your personal order.

According to Kovess, this gives you a "hierarchy of values". And as well as helping you identify your personal goals, it's also very useful when you're having difficulty making a decision in your business. You can check the issues involved in the decision against your scale of values and determine the right solution that suits both your business and personal values.

The next step is to identify your business goals. The table below outline some common business goals (but again, the list is not exhaustive).

Increasing profits	**Revenue generation**	**Growth**	**Success**
Staff	**Market share**	**Customers**	**Service**
Skills	**Marketing**	**Product enhancement**	**Performance**
Tenders	**Delegation**	**Website**	**Systems**
Streamlining	**Cost reduction**	**Improve efficiencies**	**Strategy**
Productivity	**Globalisation**	**Operations**	**Technology**
Strategic Alliances	**Advertising**	**Increase sales**	**Mission**
Business vision	**Budget**	**Quality control**	**Networking**
Philanthropy	**Brand recognition**	**Acquisition**	**Franchise opportunities**
Larger premises	**Additional locations**	**Improve distribution**	**Industry awards**

In our own business we're constantly setting short-term and long-term goals. The reason we do this is because if you don't have goals it's pretty hard to achieve anything concrete. You may have heard the saying *most people aim at nothing…and they hit it with amazing accuracy.*

So again, choose the most important 10-15 for you and rank them in order.

Then, put them beside your personal goals – are there any that are going to potentially cause conflict?

If the answer is yes, then you need to address it now because it's only going to cause you grief and be counter-productive to everything you want to achieve.

Which of course begs the question, if you identify a conflict in your goals, which should over-ride – personal or business?

The answer is actually pretty simple - have you ever tried to change something that you personally want or believe in? Ultimately it's much easier to change a business goal or decision.

A common conflict that Kovess raises in "Passionate People Produce" is that of health and wealth. He suggests the following type of conversation is fairly typical with business owners:

"Are you as fit and healthy as you want to be?"

Business owner: "No"

"Which is more important to you – health or wealth?"

Business owner: "Health of course."

"Is your health and fitness as good as you'd like it to be?"

Business owner: "Unfortunately, no."

"Why not?"

Business owner: "The demands of my business…"

So whilst we say health is more important, in practice we often sacrifice health for wealth and wonder why we don't feel fulfilled. A pretty common example of goals out of alignment…

The above method of helping you align your business goals and personal goals is not rocket science, it's just about setting aside the time to do it.

Building the house

When you're building a house it's always about getting the balance right between practical and personal. For example if you love cooking and entertaining, then no matter how functional your home is, how expensive it is, or how big it is, if you include a small kitchen and no entertainment area, you're never going to feel completely happy in that house.

The same goes for your business. As we've hopefully explained by now, if you're business activities aren't moving you towards what's important to you personally, it will never be able to fulfil it's true purpose no matter how much profit it makes.

A real danger is that business can become all-consuming when you love what you do. Always remember that your business supports life, it's not the whole of life. At some point the business needs to be put aside and it's rewards enjoyed along the way.

And don't forget to diversify. We all know the cliché – *don't put all your eggs in one basket.* This is one of the fundamental risk management tools for *any* investment, *including your business*. So while you're building your house, don't become so focused on it that you forget to build other assets along the way.

So where exactly should you diversify?

This is a question you need to ask your Financial Planner. Their job is to look at your overall financial position, including your business, and identify any risks and how they might be mitigated.

Some typical diversified assets might include:

- Superannuation (perhaps even a self managed super fund)
- Property – residential, commercial, business, retail, holiday let etc
- Shares
- Managed Funds
- Cash
- Term Deposits

Personally, we believe you should have most of these assets in your portfolio so that in the event that your business venture doesn't achieve what's needed to support your personal goals, you have other assets that you can rely upon, not just the business.

When the house is built, don't ignore the cracks…

One of the most important rules when aligning your personal and business goals is to address an "issues" early.

If you feel that you're business is pulling you away from your personal goals, don't keep doing the same thing hoping it will get better – be proactive and make changes.

Maintenance

Every house needs maintenance once in a while and your business and personal goals are no different.

Things change. Let's be honest, if we haven't learned that after the Global Financial Crisis then we shouldn't be in business!

Changes are constantly taking place in the business world. And of course your lives change every day.

To ensure that your strategy remains appropriate through different economic climates, industry fluctuations, tax and legislative, changing lifestyles and financial needs, you need to review and maintain on a regular basis.

You may need to even completely renovate and do a complete overhaul of your business if you feel that your personal and business goals aren't in alignment.

So you should periodically review and re-set, bearing in mind that you may need to sometimes respond to major shifts in both environments

If you haven't done this for a while then maybe it's a good opportunity to do it soon.

We recommend a formal planning session to develop personal goals and business goals and mesh them together. If you have employees, then you should involve your senior team members. If it's not something you're completely comfortable doing then get someone experienced to facilitate it for you.

Again, use the step-by-step process to identify your personal goals first, then your business goals, and determine whether there are any incongruities. If there are, then as we said earlier, it's a lot easier to change your business goals than your personal goals or belief system.

The sale!

If your ladder is not leaning against the right wall, every step you take gets you to the wrong place faster. Stephen Covey

Like a house, most people are building their business to sell it for a profit. Or if not to sell, then maybe you're hoping to cease the physical work but remain a shareholder with a regular income? Perhaps you wish to simply wind down the business? Or have a family member or staff member to succeed you?

When it comes to your business and your personal goals, you need to remember what Steven Covey wrote in *"The 7 habits of highly effective people",* **always begin with the end in mind.**

One important goal that's often neglected in the planning stage is how we want our business to end. And yet, this is actually the MOST important goal of all.

If you're planning a trip you need to know where you're going before you can plan the route. Right? In the same way, you need to have a plan for ultimately exiting your business and what you want to do afterwards.

As business owners we take significant risks on board in anticipation that we'll be duly rewarded in the future. For most of us, we expect the prize to come in retirement (with some lifestyle rewards along the way of course), but it doesn't just magically happen. We have to plan for it.

Time and time again business owners are surprised to find themselves being forced to sell their business for a much reduced value, unable to find a buyer, winding down a business they hoped to sell, or without appropriate succession, because they didn't begin with the end in mind and work towards it.

Starting with the end in mind helps you build not only the type of business you want, but also the business you ***need*** to reach your ultimate ***personal*** goals.

The Foundations

Ok, so if we're using our building analogy, then we missed a really fundamental stage – laying the foundations! What happens if you miss this stage? Well your house may still look good, it might even stand up for a while, but if something goes wrong, everything comes crashing down - literally.

This is the same for you in business. If something happens to your business it can pull the financial rug right out from underneath you. Similarly, if something happens to you personally, it can mean the end of your business. All of which could lead to extreme compromise of the goals you had in place.

So basically, all this advice is irrelevant if you haven't protected yourself against obstacles and risks that may prevent you from reaching your goals.

The 3 main ways to lay your business foundations and protect your assets are:

1. Put in place the right structures to protect the family unit against the outside world;

2. Take out personal insurance to protect your business and family's financial position from unforeseen events;

3. Tend to your Estate and Succession Planning to make sure your family are protected and you don't end up in business with the wrong people.

Separate risk from assets

This is an Accountant's "bread and butter", using sensible structures to protect your assets and business from threats. And there are a lot of risks – government (fair work and unfair dismissal, work cover), employees, and even suppliers in the event of a business failure.

So you need to ensure you have strong foundations, ie a strong business structure.

Within a “Family Group”, you should generally choose one individual to be a "Risk-Taker" and another individual to be an "Asset-Holder".

The Risk-Taker should be the main person involved in your business and be the Director of any Trading Companies (or Trustee Trading Companies). Where possible, they shouldn’t own *any* assets in their name. This makes you an "unattractive" target to take legal action against.

The Asset-Holder should not be a Director of any Trading Companies and in most cases, the Family Home should be owned 100% by the Asset-Holder.

It’s important to note for the “risk takers” in the relationship (i.e. you hold no assets), under the Family Law Act, this type of structure does not disadvantage you in the event of a family breakdown.

In most cases, the minimum business structure you’ll need includes a trading entity and a separate asset holding entity such as a Family Trust or Individual Trust.

A Family Trust collects income and profits from the underlying assets. *It does not pay tax*, instead it operates like a funnel. The trustee acts on behalf of the beneficiaries and the trustees “funnel” profits to beneficiaries. Then each individual beneficiary pays tax accordingly. This can help to significantly smooth out any tax liability.

This type of structure offers protection because your assets are building up in a trust, rather than your personal name.

A company operates more like a bucket. It collects profits but doesn’t do anything with it. At end of the year it pays 30% tax on any profit. The profits can stay in the company as working capital until a company pours out dividends to shareholders. Importantly, dividends must be in proportion with shareholding. It’s a fixed formula with no room for discretion. So it doesn’t offer much in the way of opportunity for tax efficiency unless you have the shares owned in the operating entity *by* your Family Trust.

The asset holding entity should ***never*** have business "relationships" - it should only invest or lend funds to related entities.

Move all surplus funds regularly from the "Risk" side to the "Asset" side.

You need to ensure that you don’t allow too much income from your Trading Entity to remain there as working capital. If your Trading Entity has legal action taken against it, then any cash assets are at risk.

Instead, you could consider fully distributing the profits from your Trading Entity to your Asset Trust and lend them back to your Trading Entity using a Secured Loan Agreement.

You should always aim for your Trading Entities to hold as few assets as possible (small amount of cash, debtors and stock **only**), and that no unsecured loans remain owing from individuals or related entities to the Trading entity.

If you think about what happens when water leaks into a Submarine, the compartment can be "locked-off" to prevent water getting into other compartments and sinking the submarine. In the same way, if problems develop with your Business (eg. it fails, legal action is taken against it, etc), this structure allows it to be kept separate from other personal wealth and accumulation assets.

Personal insurance

Most people tend to have the standard business insurance in place – PI, public liability, fire and theft etc, but statistically you have a very small chance of ever having to claim on these policies.

On the other hand what happens to your business and personal goals if, as the business owner, you're injured or unwell and unable to work for an extended period, or maybe ever again? Yep, the house falls down.

Personal insurance is the vehicle by which we can mitigate this risk and protect our family's financial future.

In our experience, there are two main objections to taking out personal insurance – concern that claims won't be paid, and the cost.

The simple fact is that the bigger and better insurance companies, absolutely pay out genuine claims. That's their job! In most cases where a claim is denied it's because:

a) The insurance company isn't high quality;
b) The claim doesn't actually meet the terms of the policy that was in place;
c) Issues of non-disclosure by the policy holder.

As far as the cost is concerned, have you ever considered the long-term cost of having no business income… Premiums become fairly negligible compared to this scenario, especially as some of them are tax deductible.

Most Financial Planners will offer a review your insurance needs as a free service, and then you make an informed decision about how much risk you're happy for your family to bear. If you have children then really, it's an obligation to at least understand your risks and options.

Succession and Estate Planning

Succession planning really is an issue for anyone that's in partnership with someone else. The best way to describe the potential fall-out of not having a good succession plan in place is a simple case study.

Barry and Frank own a 50% share each in motor mechanic business.

Barry is married to Bev, and Frank is divorced with 4 children.

If Barry was to pass away, guess what, Frank is suddenly in business with Bev. And it's a full partnership. Given that the business has always been the basis of her long-term financial security, Bev plans to take a very active part in the running of things. Now Frank really likes Bev but she's a book-keeper who knows nothing about cars. But she now has equal say in the business…

On the other hand if Frank was to pass away, Barry ends up in business with Frank's 4 kids!!!

Insurance and a succession plan could have saved all this and it's hard to imagine either of them would have resented the relatively small cost (paid for by the business).

Estate planning is important because most people do actually have reasonably strong feelings about how they'd like their estate to be distributed if something were to happen to them.

Are you positive that your current Will is set up in the best possible way to protect your family if something was to happen to you?

In particular, you may need to review your Will if you:

- have a blended family

This can be a veritable minefield. Our specialist Estate Planning solicitor tells the story of a client whose stepchildren perfectly legally evicted her from her home because of her husband's poorly worded Will. Obviously a worst case scenario but it did happen and neither she nor her husband would ever have meant for that to happen.

- are parents

Do you know the limitations of appointing a guardian in your Will? Do you understand what happens with the estate proceeds if you have young children? Do you need testamentary trusts to protect children that own a business, are married, or have disabilities?

- are elderly

Do you have all your Powers of Attorney in place, including appointment of an enduring guardian to make lifestyle decisions on your behalf in case you need to move into aged care accommodation.

- are a couple

Did you realise that if you die without a Will, your estate does not automatically go to the surviving spouse. Instead the formula is:

- Surviving spouse gets chattels (including family home) + $100,000 + 1/3 of the balance;
- Any children automatically receive 2/3 of balance

If you don't have children, then yes the estate passes to the surviving spouse but it's an administrative pain…

So it's really not as simple as grabbing a Will Kit from the local post office, especially if you're a business owner that falls into one of the above categories (and most of us do).

In a nutshell

1. In order to achieve the success you want, you must ensure your business and personal goals are in alignment;

2. If you're not sure, then follow our step by step process to identify any potential conflicts and then address them immediately;

3. Even if you've set goals in the past, it might be time for a bit of "maintenance" so take the time to formally review them. If you have employees, then involve senior team members as well.

4. Don't ignore any conflicts between your business and personal goals – the problem will only fester. Take proactive action to make sure your business goals are moving you towards your personal goals.

5. Begin with the end in mind.

6. Don't just protect against the risks that are statistically less likely, protect your biggest asset – *you* and your ability to earn income!

7. Take the time to implement a succession and estate plan that reflects your true wishes. Never assume a simple Will can do this for you.

Good luck and may you achieve the long-term security you want for yourself and your family!

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