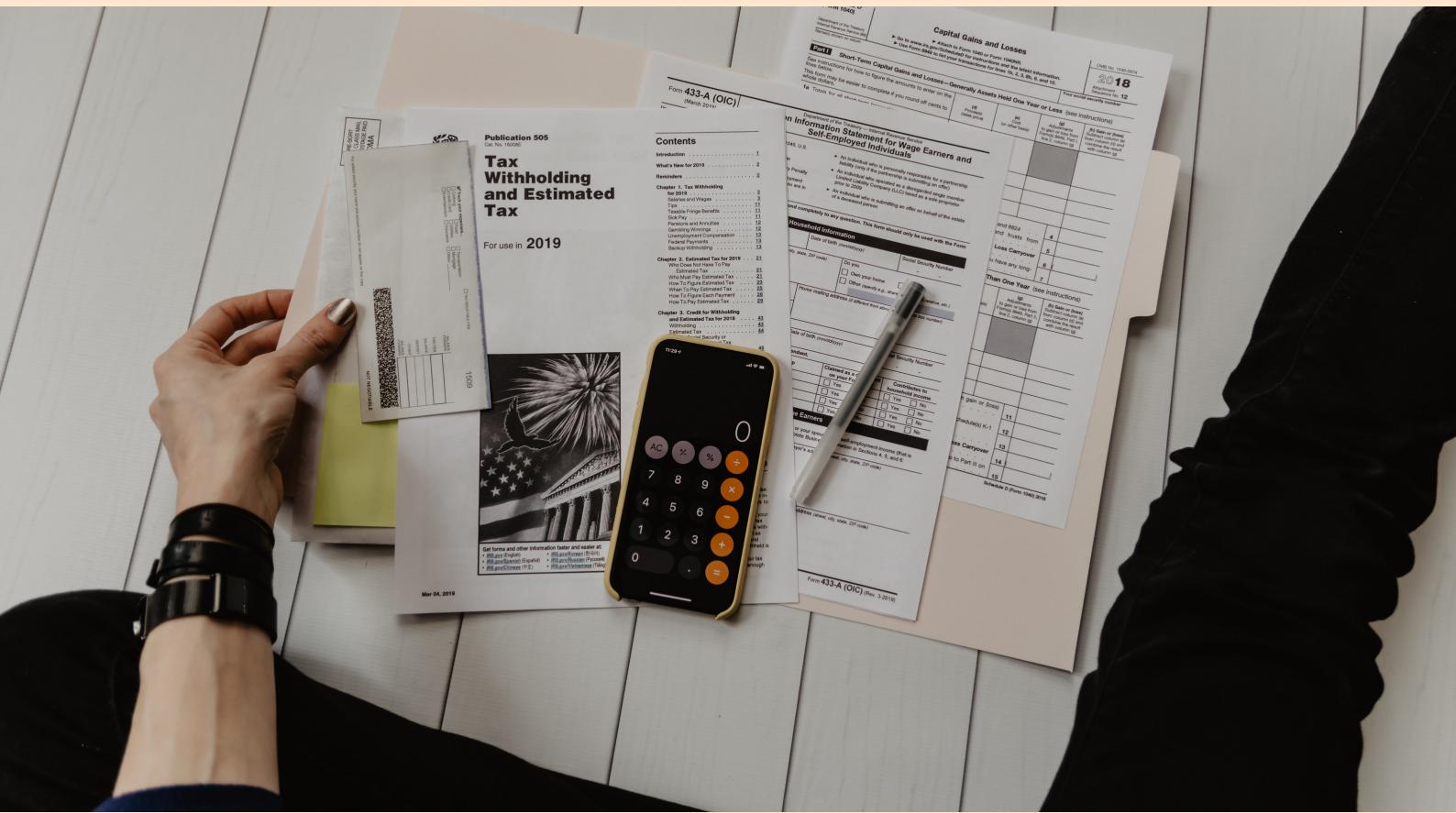




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the ABC's of financial planning for business owners





The ABCs of Business Financial Planning For The Business Owner

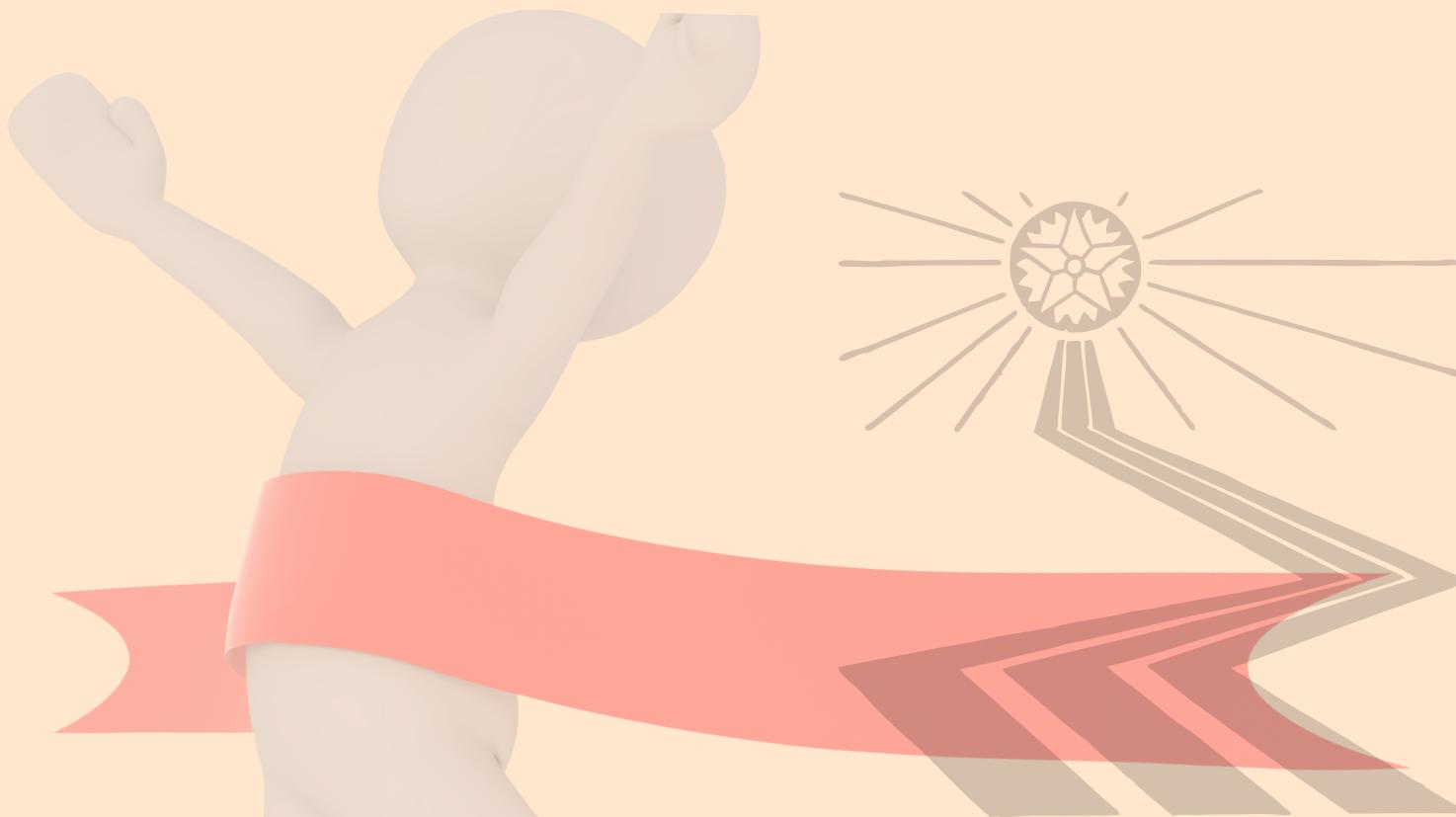
It is not easy to be a business owner. There are many challenges and risks associated with an operating business. These are often related to finance. As such, it is imperative for business owners to do some financial planning and risk management to mitigate these challenges and risk, so that they can then focus on directing their business towards stability and growth. This article is written with the purpose of sharing the “ABC”s of business financial planning for business owners.

A - Analysis Of Situation, Goals & Objectives

Every business owner is unique. Each one has different concerns and goals. The first thing in this planning process is for business owners to do a needs analysis to assess their own situation, goals and objectives. Then, take stock of what they currently have so that it gives, an overall picture, before mapping out the action plan and strategies in order to achieve their goals and objectives. As business owners, it is important for them to separate personal goals/financial planning, from business goals/financial planning. For their personal financial planning, one can refer to Tuesday Times article¹ and draw more details on this area.

A - Asset Protection

Asset protection is a key area of concern for business owners. Business owners may be exposed to risk and threats that may deplete their wealth. Some of these examples include sickness and health conditions that require expensive medical treatment, which may also affect their working ability. In other situations, protection against debts or obligations may be needed in case their finance takes a downturn. Also, specialised risk like litigation concerns may arise, which would require creditor protection due to their profession or business exposures. In view of these concerns, it is important for business owners to separate or ring-fence their personal asset/s from business. They may wish to consider using insurance as a tool to preserve and protect their wealth.



B - Business Risk Management

There are many risks that a business owner may face when operating their business. These risks generally fall into two categories: the first being the loss of business assets (due to fires, theft, flood, negligence etc) such as buildings, inventory, and equipment; and the second being responsible for causing injuries to others and property damage in the course of business.

A property and casualty insurance arrangement will be able to protect the business from an array of such losses, accidents, and threats in relation to property and possessions, as well as liability claims from third parties and employees. These arrangements and solutions differ with every business due to their unique requirements and risk exposure.

Another type of risk that a business may face is the loss of a key employee due to premature death, disability, or illness. A key employee/talent could be the business owner, director or employee who is responsible for generating profit or overseeing the whole business operation. In the event of such situations, it can severely affect the business by causing a drop in revenue and disrupting operations, which may threaten the survival of the business. In these instances, specific insurance arrangements to protect against the loss of such key talent/employee (known as keyman insurance) would be able to mitigate such risks.

The insurance payout can help to:

- provide liquidity to keep your business running
- cover the potential loss of profits and costs involved in re-hiring and training
- replacing the key person who is crucial to the business operations and
- reassure creditors of a smooth transition so that credit lines are not impacted.



C - Cashflow & Credit

According to an Aon 2019 Global Risk Management Survey², it was reported that cash flow and liquidity range among the top ten risks faced by small medium enterprises (SMEs³).

Cash is the lifeblood of a business. A good cash flow management and a healthy cash flow are important for business. This ensures payment for salaries and bills, as well as for investing, in growth and expansion. Business owners can improve cash flow management by doing budgeting and cashflow forecast, keeping cash reserves, as well as following credit control best practices for faster payment for account receivables and credit management.

On this note, business owners can consider the arrangement of a trade credit insurance for protection against credit risk. A trade credit insurance can help business owners cover their accounts receivable due within 12 months against unexpected commercial and political risks (customer bankruptcy, changes to import and export regulations, etc.) This would help safeguard business cash flow and avoid bad debts. Business owners can also explore the availability of credit through debt or equity financing.

D - Debt Cancellation

Debt financing, which is common for business owners, is a way to raise capital and finance their business operations. They may take up loans and credit facilities from financial institution for this purpose, or for factors such as expansion as well as property purchase. In such situation, business owners are often required to sign personal guarantee/s and become a personal guarantor where their personal assets will be liable if the business cannot pay off the debts. As such, it is important for business owners to have an insurance arrangement in place for debt cancellation and asset protection purpose, to ensure there is no default in payment, should something happen to them.

E - Employee Benefit

Attracting talent to work for the business is crucial for a business to do well. Apart from attractive salary package and statutory benefits in accordance with the Singapore Employment Act, business owners need to offer attractive employee benefits as well for talent acquisition and retention. Employee benefit, also known as fringe benefit, are provided to employees in addition to their normal salaries. They typically fall into three main categories:

- wellness benefit like insurance (group term life, medical insurance etc) and health screening
- lifestyle benefit which include gym membership, office food, flexible working hours etc and
- financial benefit such as bonus, flexible cash benefit and employee stock ownership plan (ESOP) etc.
- Depending on their budget and objective, business owners can setup an employee benefit arrangement through a trusted practitioner / employee benefit specialist to increase both, employee satisfaction and engagement respectively, for talent acquisition and retention.



F - Finding successor / succession planning & business exit

Business exit and business succession planning are two different scenarios. They are usually not the first thing on business owners' mind while running their business. However, it is always good to begin with an end in mind. Therefore, it is a step in the right direction to plan ahead for business continuity, as either of these two scenarios will take place one day.

For business exit, a business owner may choose to retire when the time comes or to sell away the business to cash out, perhaps in view of an inability to continue running the business. Before these events occur, a valuation to determine how much the business is worth needs to be done. In addition to these, it will be good to have a partnership agreement (for partnership) and shareholders agreement (for companies) to document the agreed understanding and arrangement between partners and shareholders, and that way, minimise confusion or/and conflict. A buy-sell agreement needs to be set up as well to facilitate a business exit process, with consideration of when and how this will be triggered, who the parties involved are and the funding source for this process.

For business succession planning, it is important to identify a potential and willing successor, and to groom this successor to eventually take over the business. The successor can be a family member, or a third-party individual like an experienced and capable employee. For business succession to a third party individual, it involves the same steps, in relation to doing a valuation and having the various partnership/shareholder/buy-sell agreement in place. For business succession that involves family members, a business owner can explore the option of using a will, trust and other structures like family office etc (for high-net-worth individuals) for the distribution of business asset/succession planning upon their demise.

G - Get regular review

Just like one does a regular annual medical check-up or visiting a dentist yearly, it will be good to have a financial review done once a year or regularly with a trusted and competent financial practitioner. There may be changes in several areas, such as a business owner's personal and business situation, as well as new developments in the market (i.e. regulatory changes like WICA4 requirement). A regular review will help to ensure that the planning is still relevant with adjustment made in view of those changes, so that they are in line with the business owner's goals and situation.

In conclusion, I hope the “ABC”s pointers serves as a useful guide, in relation to financial planning for the business owner. However, it needs to be highlighted, every business owner’s situation and goals/needs are unique and different. It is an extensive and broad topic, which entails more details that is beyond the scope of this article. Do work with a competent and trusted practitioner to go into details to map out your planning. This will help mitigate the business financial risk as well as challenges, and that way, yield a peace of mind too. With this, I wish you every success in your business endeavours ahead.

Notes:

1. <https://www.ifpas.org.sg/file/ISSUE75.pdf>
2. <https://www.aon.com/apac/in-the-press/asia-newsroom/2019/press-release-4-april-2019.jsp>
3. SME refer an enterprise with an annual sales turnover of under S\$100 million, or that employs less than 200 workers.
4. WICA is short form for work injury compensation act



ABOUT THE AUTHOR

Tan Seng Chuan is a licensed financial practitioner and an active member of IFPAS. He holds the ChFC®/S, CLU®/S, IBFA and AEP® designations.