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Advising the entrepreneur/business owner

In my first blog on this topic I set out four generic stages of a business and provided a few words about the issues faced in a business and personal financial planning context. Today's blog will expand upon the first of those stages, looking specifically at: –

A young business that is beginning to make some profits

At this time the owner(s) are likely to be working very hard and fully focused on continuing to drive the business forward. They have already accomplished the hardest task – profitability, it is now time to push on and grow. For this they will have a business plan and perhaps a mentor to help them put that plan in place.

If the business has a plan then so should the business owner and the two plans will be intrinsically connected. I would imagine the plan for the business would be further growth leading to increased revenue and profits. This may involve more staff, capital expenditure and potentially acquisitions, perhaps further fundraising is required.

The plan for the individual is also important and should run alongside this; although the business may require its profits to be mostly reinvested thought should still be given to the owner's personal situation, current and future. Planning can be put in place now that can be gradually built on as the business becomes more mature and profitable.

Entrepreneurs tend to be very driven individuals – goal oriented and focused on the task at hand. They though, like all of us have worries, what ifs?

> What if something happens to me and I can't work – what will happen to the business and the income I/my family relies on?
>
> What if the business doesn't succeed to the extent I want it to? Or the timescale I've planned?
>
> What about the mortgage, the school fees, other debts?

Now is the time that consideration should be given to addressing these concerns – if these worries are removed or just reduced this gives the individual more ability to focus on their main objective – growing their business.

At this stage the first thing on the list should be protection – for them, their family and their business. For a relatively small outlay life cover should provide enough capital to cover all debts (including mortgages) and potentially provide extra funds for any dependants. Income protection would also be a consideration as would critical illness cover.

Protection in another form would include putting simply structures in place as to what would happen to the business in that eventuality – would someone you trust step in to run it, or potentially sell to generate capital.

Thought should then be given to starting to lessen personal exposure to the business – by reducing debt elsewhere and building cash reserves or even investments that are separate. Reducing the mortgage even by small amounts on a monthly basis can have a major effect over time – especially in the current low interest environment. Building up cash reserves for either known expenditures or emergencies should also be a goal – this not only gives peace of mind but also reduces the chance of the business needing to pay an unforeseen dividend at an inopportune time.

These three areas I believe should be the first planning an entrepreneur takes when he/she begins to make profits from their business – they are relatively small and inexpensive steps so shouldn't hinder growth but should allow that person to worry less and focus more.

For those with more scope perhaps thought should be given to the longer term - by setting up a pension now even if minimal amounts are contributed this effectively stores up unused pension allowances for the future[1]. In a previous article here we explained how for high earners (those earning over £150,000) the pension contribution allowance are to be gradually eroded down to just £10,000pa for those earning over £210,000pa. The ability to withdraw this level of income will be most owners aim, also building up a tax efficient pension fund will also be a target. The new rules on pension contributions could prove problematic in the future – by starting a pension early it effectively starts the clock for carry forward contribution enabling "catch-up" lump sums to be made at a later date. Once caught up there are other methods to continue funding as discussed in my last blog here.

These are just a few thoughts regarding the issues relevant to young businesses that have begun making profits and the early stage planning that is hugely important to the individuals running those businesses. This is the stage serious thought should be given to developing a relationship with a quality adviser who understands you and your goals; this would not only be limited to financial advice/planning but also accountancy and legal advisers.

If you have any questions on this subject then please get in touch with me or one of my colleagues. My next blog will look at another stage – the high growth business.

Stephen Jordan

[1] Unused pension contributions can be "carried forward" for 3 years – provided the individual is a member of a registered pension scheme