

How Healthy Is Your Business?

Keeping fit is a key component to healthy living and a longer life. Indeed more and more New Zealanders are reaping the benefits and rewards of a healthy lifestyle.

Businesses are no different. A healthy business also brings with it benefits and rewards including increased returns for the owners. In this article regular contributor and lawyer James Johnston looks at the health of your business.

The state of health of your business is important particularly if you are a partner, director or a shareholder. It is also important for persons who are considering the purchase of your business.

But how do you know that a business is healthy? At first sight this question seems difficult, particularly as a business is often not a person but a legal creation.

The following are nine questions that can be used by you to help assess the state of the health of your business. The questions should be asked by you particularly if you are running the business or are intending to run the business. These questions with comments added are:

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1. How does the business make money?

As a business owner you must know how the business makes its money. This is the core of understanding your business.

2. Is your business paying too much tax?

Some businesses may be paying too much tax. A review of your business structure may ensure that your business is positioned to take advantage of lower tax rates.

3. What is the cash flow of the business?

Cash flow is the life force of any business. It is important that you

know whether customers are paying up in full, on time, and if not, why not.

You must understand the sources and application of the business' funds and must be aware immediately if the business cannot meet its obligations. The personal liabilities for insolvent trading are severe, even for directors not involved in the day to day operation of the business.

4. How reliant is the business on key staff?

It is important for you as a business owner to consider the consequences should key personnel be head hunted or are not able to work for any reason. A succession plan for key staff is a vital component in overall strategic planning.

Great care should be taken in determining the remuneration of key personnel and management. Business owners should know the extent of liability under any employment agreement. When negotiating agreements with key personnel or management, put in appropriate caps.

5. What are the risks facing the business?

Identifying potential risks at an early stage can enable you as a business owner to put strategies in place to minimise the risk and any resulting damage. Risks can be varied but often involve issues around the use of proper HR policies and procedures; having appropriate insurance and complying with the relevant laws.

6. How strong is the competition?

A comparative analysis of competitors is important and can be used as one of many key yardsticks to measure the success of the business.

7. What are the plans for business growth?

Any plans for growth should be carefully considered to ensure that the risks can be identified and appropriate decisions taken.

8. Have you got succession plans in place for your business?

A succession plan for the overall business is important particularly where the business is a family one. This can ensure that your business is positioned to be around for the long term and take advantage of and maximise opportunities for long term returns.

9. Have you understood the answers to the above questions?

As a business owner you need to understand the answers to questions that you ask in order that appropriate steps – including further questioning – can be taken. Like your own health the health of your business is in your hands.



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