Top 5 issues we see with new clients

By Fordham
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Having worked extensively with privately owned businesses, it is often the same key issues that keep popping up with clients when we first start working with them. If left unaddressed, many of these issues can be catastrophic for a business, but with a little forward thought and planning, these same problems can help a business succeed.

The top 5 issues we see with new clients are:

1. **Businesses without a Plan**

"If you fail to plan, then you plan to fail". As with any journey, if you don't know where you are starting from, and where you want to go, then there is no way of measuring success, or knowing which way to go when a fork appears in the road. A good plan will include a Mission Statement (who are we, what are we doing, who are we doing it for and why are we doing it), a vision of where you want to be in say 5 or 10 years' time, and then a critical analysis of the strengths you can use and opportunities you can pursue to be able to get you there, and the weaknesses you can improve on and threats that you need to mitigate to make sure that you don't stumble on the way. This analysis needs to be deep and realistic, and you need to acknowledge that you can't achieve everything at once. There is no point setting yourself 50 goals for the year, as you won't be able to achieve them, and you will invariably end up not finishing any of them. Pick the top 6 or 8 things that you can really work on this year and set specific goals and targets, cost anything that needs investment, and give each task a Champion who will be responsible for delivering that task by a specific date. And then check back in regularly to monitor and manage progress.

2. **Trading through the wrong corporate structure**

80% of the issues we see with new clients can be classified as structural. When looking at structuring a business, 2 of the key things that we consider are asset protection and tax management. They are both as important as each other and need to work in tandem to achieve the best result. One of the most common ineffective structures we see in new clients is a company owned personally by the business operators. This doesn't provide any asset protection, nor any ability to manage income. If you aren't trading through the right structure, it can be very costly to unwind and fix it, and often more costly if you don't. Your structure is not a static thing - as your business (and personal situation) changes and evolves you need to review how you are trading to make sure that it is still right for you. It is often recommended to review your Estate Plan every 3 – 5 years, and you should do the same with your business structure.

3. **Don't have a budget/quick profit reporting system**

Very few clients that come to us have a budget in place. It is often 'too hard' or 'takes up too much time' to set one up, and so never gets done. Without a budget, how is a business able to know if they are tracking against their goals? How will it be known if there are expense overruns, or how they are going to manage cash flow for their next BAS (business activity statement) payment or wages bill? A good budget will be a Monthly 3-Way Forecast, and include a Profit and Loss Statement, Balance Sheet, and Cash Flow Statement, and most accounting systems can help you put one of these together relatively simply. If you don't have time to start from scratch, try copying last year's actual results into a spreadsheet, and then increase revenue, or reduce some overheads to try and get the outcome to where you would like to be and start with that. Then track your results at least on a monthly basis so that you can see where there are good and bad results, so you can take immediate, real-time action to impact your results. You can also consider a quick profit reporting system. Sometimes by the time the financial results are completed, which may be 3 weeks after the end of the month under review, it can be too late to take remedial action.

4. **Owners spend too much time working in the business, not working on it**

   Business owners often juggle hundreds of balls in the air at any one time, and it is often all too easy to put off that planning work to do a deal, help a customer, or to talk to a supplier or employee. When talking about the value of a business, owner reliance is often the point which reduces the value of a business the most when it comes time to sell, because the business is so reliant on the owner that they can't be separated effectively. It is important for a business owner to surround themselves with the right people to allow them the ability to step outside and critically appraise and work on their business. This involves hiring the right people, with the right skills to compliment the owner, and making sure that they have clear job descriptions and accountabilities. Most well run businesses will have some form of Advisory Board, which can be friends, family, or external professionals, that will meet on a regular basis to assess and advise on the business, reviewing the strategy and holding the team accountable (especially the owner) to the goals that are set in the plan. All of these things give time back to the owner, while making the business more stable and valuable.

5. **Down side risk not managed**

   Being in business can be risky, and whilst some new clients have put in place strategies to minimise their business risks (professional indemnity and workers compensation insurances, business policies and procedures), there are other 'life risks' that are often not addressed. What would happen if the business owner wasn't able to go to work for a period of time, short or long? Would the business survive? Would you be able to bring somebody in to help keep things running, to keep your employees and customers engaged? What would happen if there was a death in the family, or the person running the business passed away. Would there be enough money coming in to pay the mortgage, or to pay off all the debts in a worst case scenario so the family doesn't have to worry about what comes next? All of these things should be addressed through effective personal risk mitigation strategies, including an effective Estate Plan and the right insurances for your situation.

No matter where you are in your Business Owner Journey, making sure that you have these 5 key things addressed can help you build a solid foundation and give you and your business the best chance of success.

For further information contact your Fordham Partner.