

5.2 WAYS TO BULLET-PROOF YOUR BUSINESS

AS A BUSINESS OWNER, YOUR BUSINESS IS A TREMENDOUS ASSET NOT ONLY PROVIDING AN INCOME BUT ALSO FUTURE EQUITY THAT MAY BE WORTH MORE THAN YOUR HOME. IT IS IMPORTANT TO MAKE SURE IT IS NOT ONLY PROTECTED BUT BULLET-PROOFED. A SIMPLE BUSINESS OWNERS POLICY MAY PROVIDE SOME PROTECTION, BUT DOES IT BULLET-PROOF YOUR BUSINESS?



ARE YOUR BUSINESS ASSETS ISOLATED FROM YOUR PERSONAL ASSETS?

- There are several ways to operate as a business – sole proprietor/partnership, limited liability company (LLC) or corporation. As a sole proprietor or partnership personal assets are at risk. In the case of a LLC or Corp, the assets of the business are separate from personal assets.
- Seek advice from your accountant on the type of entity you should set up. LLCs & S-Corps are “pass through” entities, which simply means that net revenues pass through the company to the owner(s) to be taxed in their individual tax bracket. C-Corps are taxed at the corporate level.
- Check with your insurance agent on what may be the best type of entity to ensure. There are also websites that can guide you and even set up the entity for you including obtaining a FEIN (employer id number)

LOSS SCENARIO:

Tom is an electrician. He has always been a sole proprietor. On larger jobs he would bring in some subcontractors, but for the most part, he worked alone. He landed his largest job, but it included a hard deadline with financial repercussions if not met. Some of his subs did not complete their work & he missed the deadline. His client sued for breach of contract & won. Without the money to pay, the court ordered immediate eviction and sale of his home to cover the judgement.





DO YOU HAVE WRITTEN GROUND RULES FOR PARTNERSHIPS?

There are 3 types of people that go into business:

- 1) The Loner – typically the person that doesn't play well with others & especially report to others
- 2) The Entrepreneur – typically the person who likes to start new ventures
- 3) The Builder – typically the person that is in business to grow & build.

Know which category your future partner falls, because:-

- Partnerships can be great! But make no mistake; they can deteriorate quickly, especially when expectations of the "other" partner are not being fulfilled.
- We all have known partnerships where one partner is doing all the work and the other partner is doing nothing.
- If you are going to have partners, make sure that you and your partner(s) are on the same page. Have the "ground rules" and expectations written, including how each partner can "get out" of the partnership if desired.
- A good rule of thumb is to think of the worst case multiply it by 10 times, and then use this as your guide. Partnerships that deteriorate can be very costly.



LOSS SCENARIO:

Bob and Bill were great friends and worked well together. They decided to go into business for themselves. They spent no time putting the "ground rules" of their partnership in writing, thinking that a split would never happen to them, after all they were great friends. Initially, things went well, but then as with all businesses, the struggles came. Bill & Bob handled the struggles very differently. Bill put his nose to the grindstone and work at growing the business, while Bob's idea was to spend their way to success by investing in land to build an office, thinking it would attract new clients if they were in a different place with their own space. As fast as Bill was bringing in new revenue, Bob was committing the money to the building project. Eventually, there was not enough money to pay the bills and the partnership ended, but so did their friendship.





HAVE YOU ANALYZED YOUR GREATEST RISK(S) OF LOSS & DEVELOPED A PLAN OF PROTECTION AND RISK REDUCTION?

Every business faces risk. For example, if your business is renting commercial property, one of your greatest risks is the risk of damage to your properties from wind, hail, fire, vandalism, etc. Or if your business is an electrician, plumber, dry wall installer, painter, etc (contractors), the greatest risk is liability causing damage to others property.

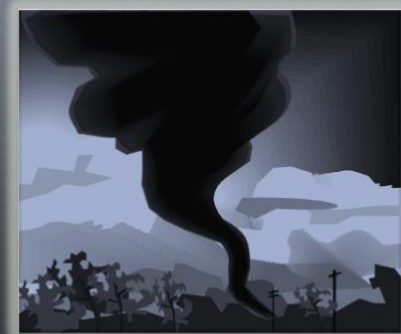
Whatever the risk, you will want to minimize the costs when the Murphy's Law strikes.

There are three ways to handle risk:-

- **RETAIN THE RISK!** Simply put, you would self insure the risk. Some risks are worth self insuring. We self insure risks in our personal lives – you have a deductible on your home or car. In those cases, you have retained a portion of the risk
- **TRANSFER THE RISK THOROUGH CONTRACT!** When you sign a contract (e.g. to lease a car), the company you contracted with often transfers some risk to you in the contract wording. One phrase often seen in contracts is “hold harmless”. This is a way of transferring risk!
- **TRANSFER RISK THROUGH INSURANCE!** Most risks can be insured for a premium. The higher the risk, the greater the premium. Weigh the cost of insurance vs the cost of loss if the risk occurs. This will help you decide if the risk needs to be insured or retained. Beware that you could be purchasing insurance where there is no risk at all or you could purchase more insurance than you need (over insuring)

LOSS SCENARIO:

A manufacturer had invested heavily into computer automation through software integration with continual updates through online software maintenance. They were hacked with a Trojan virus and the data breached cost them 14 days of production and thousands of dollars to rid the system of the virus. They chose to retain the risk instead of insuring the risk. Had they insured the risk, they would have had the data breach covered and 14 days of lost income.





EMPLOYEES?

Employees can be the greatest help or a huge burden and everything in between. Good employees can be a great asset to your business, but a bad employee can cost you dearly. How do you prepare when things go bad with employees. There are a myriad of problems that can occur... from on the job injury to accusing you of harassment or discrimination, even when it may not have been present. Is your workers compensation set up properly? Do you have coverage for employment practices? Do you have an employee handbook to govern your work place? Do you have benefits in place to attract & retain good employees? Do you have written hiring & firing practices? These are questions that just scratch the surface. Large companies have a Human Resources department to handle, but as a small business... what can you do?

LOSS SCENARIO:

Andy hired Sue to be his administrative assistant. He did a background check and checked her references before he hired her. It wasn't long before Sue was complaining about many things. Her computer wasn't fast enough, so Andy bought her a new one. The medical plan didn't pay for a certain prescription that she used every month, so he changed medical insurance plans to accommodate her. On and on it went and at every turn Andy accommodated her. Until one day, she asked him to do something unethical. Andy emphatically said that he could not in good conscience do what she was asking... 45 minutes later... walked out the door and soon filed for unemployment. When it was denied, she claimed sexual harassment and hostile work environment. Fortunately for Andy, he had an employee handbook that governed handling harassment complaints and the courts sided with him. He did have employment practice liability which covered his attorney fees.



DO YOU HAVE YOUR # 1 ASSET PROTECTED ?

The question that comes to mind... what is your # 1 asset? Your office? Your cars? Your computers? For most small businesses, the # 1 asset is probably you. You may have a key employee that may be your # 1 asset. Ask yourself these questions:

- What happens to the business & my clients if something happens to me or my key employee?
 - What would I like to happen if something happens to me? Do I want my family to sell the business? Do I want a key employee to take over... if so, how does my family get compensated to do that?
 - What is my exit strategy? What do I do when I retire or if I can no longer work?
 - The business is my own asset, to protect the business and its future I have to ...
- The answers to those questions will be a guide to help you fully protect your business.

AND MOST IMPORTANTLY....

5.2

Where is the best place to help you become Bullet-proofed?

- *Use an independent agent or agency!*
Many agents only represent one company like State Farm or Farm Bureau. An independent agent represents multiple companies, so if the company you are with raises rates (and they all do sooner or later!), your agent can simply shop it for you to find the greatest value at the best premium.

