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## Undiagnosed Threat Facing New Zealand SMEs

In New Zealand there are currently close to 350,000 small and medium enterprises (SMEs). They play an important part in the New Zealand economy and to the local and regional communities where they are based. SMEs employ 30% of all employees in New Zealand and create 39% of the total economy output. They also play an important role in providing income and wealth to their owners.

New Zealand's SMEs usually rely on one or two key people to keep their businesses profitable and solvent. According to a recent Massey University study, 62% of business owners say their business is "highly dependent on them." Triplejump's own experience of consulting to private enterprise supports the business owners perceptions with our financial modeling analysis demonstrating that most small businesses will suffer a substantial loss of profit within the first six months and up to a quarter of them will be insolvent within three months if a key person is lost to the business.

Recent ACC research shows that more than 70% of self-employed businesses that close down do so at least in part because of serious injury. Further, in 2003 ACC estimated that more than 1,800 businesses folded because of injury to an owner or a key staff member. Surprisingly, 43% of these businesses had been operating for 10 years prior to the event.

Research presented by the Economist Intelligence Unit found that Human Capital Risk is the second greatest concern for CEO's. So, why are SMEs so vulnerable? Many of them are undercapitalised and over draw on cash. They also have a low appreciation of the impact of risk and few want to pay for professional advice. Did you know that there is a 0.3% chance of one's house or building burning down yet a staggering 37% chance for females and 32% chance for males under the age of 65 suffering a disablement for six months or longer?

With research suggesting that 25% of SMEs will fold within three months of an event happening to a key person it is not hard to comprehend that the most substantial and serious risk facing a small business is the disablement or death of an owner.

Triplejump recognises that the serious illness, disability or death of the owner or one of the key people in a SME is a real and largely undiagnosed threat facing the business.

We also recognise that business owners are willing to take risks and live with unpredictability. It's the nature of being entrepreneurial. However, good risk takers are prepared so that when opportunities come along they can grasp the upside, but are also prepared for managing the downside.

Triplejump is committed to developing effective ways of increasing the awareness of Human Capital Risk issues in SMEs to help protect the wealth created by private enterprise in New Zealand. It is our intent to educate business owners and assist like-minded professional Advisers to recognise these issues so that businesses are more robust.

We look forward to sharing these initiatives with you over the coming months.

Triplejump helps business owners develop and implement plans to protect their wealth from Human Capital Risk. We help them prepare for the down side of unpredictability, so that – no matter what happens – they can make the best of it.

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## A Typical Triplejump Business Client Experience

*Client's details amended to protect privacy*

### Background

Bruce Robinson, Managing Director of his family printing business, Robinson & Sons Printing Ltd, recently attended a Triplejump Defining Moments workshop along with seven other business owners who were invited by West Shore Accounting, their Accounting firm.

West Shore Accounting had recently engaged their local Triplejump consultant to review the firm's Human Capital Risk. They were surprised at the number of gaps that were identified in their own structure having previously been confident they had appropriately addressed these risks. West Shore recognised that they had many clients whose businesses were exposed to financial risk following the loss of a key person. When they had tried to draw this to their clients' attention in the past, the clients had been dismissive. Hosting the Defining Moments workshop was a positive way to raise the awareness in their clients.

On the face of it Bruce's business is a cohesive and well performing business. It has a great internal can-do culture and is thriving in a demanding market based on great relationships and some key tailored, high value printing solutions.

### The Workshop

Bruce recognised some of West Shore's other clients at the workshop and this provided him with another opportunity to network as well as spend some rare time 'on' rather than 'in' the business. Many defining moments came to mind from the entry to the business with his father through to the relocation and expansion of the business following a factory fire in 1988.

The workbook soon filled up with a range of issues he had not previously considered. Especially, just how core he had become across the entire breadth of the business and that the firm's value and cashflow, established over 47 years, is very much dependent on him going to the office each day.

### The Consultation and Planning

Following the workshop Bruce and Jillian (part owner, office manager and wife) met with Craig Wilson, the Triplejump Adviser who co-hosted the workshop with West Shore. They discussed the business, its plans, its people and its market. Craig advised Bruce and Jillian that it was key he understand how the business operates in order to assess what likely impacts will occur as a result of losing

key human resources employed in the business. Armed with the information from the consultation and a copy of the company's financial statements, and following some additional emails and phone calls to clarify some issues, Craig posted Robinson & Sons Printing Ltd Business Risk Plan for Bruce and Jillian to review.

### Business Risk Plan

Bruce and Jillian were both taken by surprise by the level of detail that was articulated in the plan regarding their current position and the extent of the financial impact Human Capital Risk was shown to have in their business.

It highlighted just how much 'personal' events in their own lives would potentially affect the business performance. The impairment to revenue and profitability were substantial and this would increase their exposure to the personal guarantees. It also forced them to address how this might flow through to shareholder negotiations.

### The Outcome

*In following newsletter issues we will explore in more detail Robinson & Sons Printing Ltd's position and the issues they face but at a high level some key outcomes for them were:*

- It clearly quantified and exposed each of Bruce and Jillian's risks as shareholders within Robinson & Sons Printing Ltd and that of family shareholders
- It quantified and demonstrated the financial impact on the business if either Bruce or Jillian were unable to work in the business permanently or temporarily
- It uncovered a number of staff who are also integral to the business
- It highlighted the actions the business could take now that would help reduce the dependency on Bruce and Jillian
- Bruce and Jillian now recognise the importance of documenting the Shareholders Agreement and completing their estate planning
- West Shore needed to assist in providing a business valuation
- Williams and Brown, Robinson's Solicitor, have been engaged to complete the Shareholders Agreement and to discuss the relevance of trusts.

*Source: Triplejump Limited*

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