

SMALL BUSINESS INNOVATION: **BASICS (PART 3)**

# Financial planning

It isn't enough to run a successful business - the profits must also be managed well.

BY LORI BAMBER

It's very difficult, says veteran financial advisor Robert McCullagh, a certified financial planning instructor at the **University of Calgary and Mount Royal College**, for business owners to find time away from the daily demands of their business to focus on longer-term strategies.

But proactive financial planning is critically important for entrepreneurs, who often have no choice but to put everything into their business. "They're putting it all on the line," says Mr. McCullagh. "They've often mortgaged everything and maxed out their credit cards to start and keep their business running."

One of the keys to successful financial planning, he says, is to avoid becoming entrenched in that survival mindset. "You'll probably pass through that phase very quickly, in 18 months or less, and then it's time to start thinking about issues such as the company structure. The majority of business owners think about it almost too late - you want to capture the growth of your company, or the benefits aren't going to be as significant as they could be."

Of prime concern, says Mr. McCullagh, is creditor and risk protection. "You may work your whole life to build something, and then have it eroded by a situation completely out of your control." He points to a recent hepatitis outbreak sourced to a Calgary restaurant as an example, but says the threat more commonly takes the form of a business partner whose financial condition changes, or a shift in the economic cycle that causes your bank to rethink the way they extend credit to you. Professional service providers such as dentists and engineers face different but equally challenging risks: One Calgary dentist, for example, found that the value of his practice declined by 5 per cent for every month that he was disabled.

With the right advice and planning, many of these risks can be insured against. Term life insurance can fund buyback agreements in partnerships, disability and critical illness insurance may offer protection to sole proprietors, and segregated funds can be used to provide creditor protection of retirement assets.

Professional advice is invaluable. Laurie Venance (see sidebar), says that his professional partnership with Mr. McCullagh "supports us tremendously because we can keep our eye on our core business and know that the other stuff is being well looked after. We want to build personal wealth, but we want to do it in a way that doesn't impair the cash flow of the business."

"Having Robert to advise us and give us options also helps us save as much tax as ethically possible. He provides referrals to other professionals within his network, such as accountants and lawyers, and helps us give them the information they need to produce the solutions we need. Time is so precious, so out-



PHOTO: SUPPLIED

**Siblings Laurie and Murray Venance plan to expand the reach of their Calgary-based enterprise the Candy Tree Company by taking its sweet products into the United States and Europe. Working with a financial planner and other experts has helped these entrepreneurs see beyond their day-to-day operations and seize opportunities through longer-range planning.**

sourcing is important. There is a significant trust factor in our relationship with Robert, and that extends to the professionals he introduces us to."

Mr. Venance believes that all business owners can benefit by having a professional advisor network in place, including a financial planner, accountant, corporate lawyer and banker. "I advocate that very strongly," he says.

Dale Harper, head of private company business for **BDO Dunwoody LLP** in Vancouver, agrees that it's important to plan appropriately for the stage your business is at.

"In the very early stages, I encourage my clients not to spend too much time worrying about sophisticated corporate structures. If the company isn't turning a profit, it's probably too early to focus on much but sales, overheads and profit margins."

As the business grows, he says, owners need a structure that protects them from the risks of the business. "You'll want to be incorporated fairly early in the process, so that if the business runs into trouble, your personal assets are protected as much as possible. You'll also want to explore opportunities to withdraw income from the company in the most tax effective way. Once the company is making more money than you need to live on, it's time for more advanced tax planning." ■

## BOTTOM LINE FOCUS

Dale Harper, head of private company business for **BDO Dunwoody LLP**, Vancouver, offers advice for owners of small businesses in the start-up stage: stay focused.

"Tax planning, structuring and financial statements can all be a bit overwhelming. I tell my clients to focus on sales and gross margins, and most importantly, to understand their break-even sales levels. We generally have a number of strategies we can employ to minimize their tax bill, but the first job is to turn a profit."

Once your company is profitable, a knowledgeable advisory team can help protect your company's capital from the inherent risks of new markets or ventures - and to think creatively about your goals.

"I encourage my clients to look at how they might franchise their business," says Mr. Harper. "It's a great exercise that helps them stay focused on working on the business rather than in the business. If the business can run on its own it will be that much more valuable, and the owners will have provided the basis for an easy exit somewhere down the road."

## A SWEET BUSINESS

The Calgary-based **Candy Tree Company** has been making kids happy (and adults feel like kids) for more than 20 years now. The company's new owners, brothers Laurie and Murray Venance look forward to making that sweet experience available to significantly more customers in the years to come. Future plans include opening distribution channels into the United States and Europe.

Today, the Candy Tree's lollipops are available at the sales counters of many Canadian chain stores, and most of the company's sales come through organizations that rely on the eye-catching displays and enticing flavours for fundraising.

Customers must choose between bubblegum, green apple, strawberry-banana or one of the other irresistible flavours, but like most business owners, the Venances face decisions that are significantly more complex. They depend on a team of professional advisors, led by financial planner Robert McCullagh, to ensure their decisions are the right ones.

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