

# Is it now time to share the risks and the rewards?



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Operating a business on your own can become increasingly more difficult as your business grows and expands. Merger/acquisition opportunities, competition, retaining staff, new locations, capital, health, family pressure and business succession are some of the many reasons small business owners establish business partnerships. Forming a business partnership presents an exciting opportunity for all partners but requires careful planning to be successful.

## It's the questions you don't ask that are often the most important!

Most people going into partnership have had some form of previous business or personal relationship with the prospective partner(s). Due to this existing personal relationship it is often difficult for business partners to objectively assess their prospective partner's personal and business qualities. Consider asking your prospective partner(s) these questions:

- Why are you going into business?
- Why are you going into business with other business partners?
- What are your expectations?
- Will all business partners be active in the business?
- What will be each business partner's role?
- Do other members of your family understand and support your commitment to the new business?
- Are all business partners prepared to disclose their financial information to the other partner?
- How much cash and/or other assets will each business partner be prepared to initially commit to the business?
- How much cash and/or other assets will each business partner be prepared to lose if the business fails?
- Do you have a clear documented business plan including budgets, cash flows etc?

## 3 essential steps in building a successful business partnership

To minimise the risk of partnership failure, it is recommended potential business partners develop a plan for the new business, document the terms of the partnership arrangement and purchase appropriate business insurance to protect future partnership assets.

### 1. Business Life Planning

The first step is to ensure you and your business partner share the same values, standards and ethics but not necessarily the same skills. Once you have determined this to be the case, you and your partner should participate in a Business Life Planning process to document and agree the future direction of the new business and timelines to achieve agreed business outcomes/targets.

### 2. Partnership/Shareholders Agreement

Once you have reached consensus and alignment you need to document the terms and conditions of the partnership arrangement. This is often the most difficult part of the partnership building process as it requires partners to commit to certain courses of action, not necessarily favourable. It resolves key issues concerning disputes, valuations, sale, dealing with lack of performance and an agreed process for potentially admitting new partners into the business.

### 3. Buy/Sell Insurance

The final step is to ensure your partnership assets are protected in the event of the death or permanent disablement of a business partner. Purchasing Buy/Sell Insurance is one way of minimising partnership risk.

Independent specialised advice can make it easy for you to build a successful business partnership. At **HBA Encompass** we are experienced and best positioned to support you and your business partner(s).