

Dad... Mom... I Need Your Help!

If your son or daughter approaches you for a loan to start a business, make sure they have a solid business plan.

It has always been difficult for young people to start their working lives. The traditional route has been to apply along with hundreds or perhaps thousands of other equally well-educated people for advertised positions. But many young people, even those with post-secondary education, are unable to find work and believe the only course of action is to start their own business.

Even though they are well educated in their chosen field and perhaps have studied accounting, marketing and other subjects essential to running a business, they are not necessarily experienced with the pragmatics of a business venture.

Turning to the Parent

Your offspring has finished their formal training and has come to you with an idea for a business. You want to help but you are also an owner-manager who knows how hard it is to start and grow a successful business. You don't want to say "no" but you are not prepared to say "yes" yet either. So, maybe a little role playing would help get the two of you to a decision.

Get a Business Plan

Pretend you are the loans officer of a bank and have your son or daughter pretend they are the small-business person approaching the bank with an idea. Your question, of course, is the same as the bank's: "Will I get my money back if I risk it with you?" Your child hasn't already prepared a business plan, this is the time to get some experience. Tell them there's plenty of help available online from the Business Development Bank of Canada, the chartered banks and, of course, in the bookstores.



A Reality Check

Make sure they read the latest edition of the Industry Canada annual publication *Key Small Business Statistics*. The *Key* defines a small business as an incorporated business with one-to-99 employee(s), has sales revenue of \$30,000, or more and has filed federal corporate tax at least once in the previous three years. This publication is a reality check on survival rates, education levels of owners and many other facts that define small business ownership. The Industry Canada website is also an important source of useful benchmarking statistics that will give your young entrepreneur an idea of the way industries actually perform as measured by revenue, expenses and net profit/loss.

From a Business Perspective

As a prudent investor, you will want to see the following in the business plan:

- ✓ What is the product or service?
- ✓ Is there a market for it and who are the competitors?
- ✓ Does your child have the relevant education and other competencies?
- ✓ What assumptions are made about the economy, the industry, the market and interest rates for the first five years of the business?

- ✓ Have sales, cash flow and profit projections been prepared for the next five years? Are the projections reasonable in light of the assumptions?
- ✓ Are there other partners or shareholders contributing capital?
 - ✓ Have their backgrounds been checked?
 - ✓ What will they do and do they have the requisite skills?
 - ✓ What are the terms of the partners agreement?
 - ✓ Who has decision-making and signing authority?
- ✓ How long will it take for the company to break even?
- ✓ What is the anticipated rate of return compared to a risk-free investment?
- ✓ Will there be any lenders ahead of you?
- ✓ Is the loan insured against the death of the borrower(s)?

Your Investment Risks

- ✓ What security is available for you in the event the business fails?
- ✓ How long will it be before the principal amount is repaid?
- ✓ Is the proposed return on investment from the business equal to or greater than the current rate of return on your existing portfolio?

Think of the Long Term Impact

Don't make the loan for emotional reasons. Your child will have other opportunities; you may not. The older you are the less time and opportunity you have for financial recovery if you son's or daughter's company fails. You could end up with insufficient funds to live through your senior years. If the business fails and funds are lost, are all parties aware of the emotional tsunami that may engulf the family? Have you discussed with other family members whether the outstanding loan will be deducted from the entrepreneurial child's share in the distribution of assets upon your death?

Have the business plan reviewed by professionals before committing your funds. Better to spend a couple of thousand dollars at the front end for professional guidance from accountants, lawyers, and investment advisors than it is to lose \$200,000 when the business goes south for lack of due diligence.

And finally...

Make it very clear to the adult child that business is business and family is family. When it comes to business, expect them to meet the conditions of agreements. If they do not, you will pursue available remedies in your own interest.

On The Horizon

Monthly Survey Results!!

What do you expect in terms of job creation in your workplace in 2014?

- Significant new hires - 6%
- Some new hires -41%
- No change -41%
- Some downsizing -6%
- Significant staff cut-backs -6%



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