

# Business Protection



“The importance of individuals to the profitable and continued existence of a business is often overlooked.”

What are your  
companies greatest  
assets?

Most businesses will have insured their buildings and stock against flood, fire and theft, but all businesses have other assets – human assets, whose value is often unprotected.

However, in today's ever changing world what would happen if a business partner, a major shareholder or a key member of your organisation was to die or contract a critical illness? Would your business survive? And if so how well?

When you are responsible for the future success of a business – either solely, or as part of a management team – it falls to you to ensure not only that opportunities are maximised, but also that any threats to your business are minimised.

Some threats – such as the possibility of your stock being stolen or your premises burning down – are relatively easy to identify and address. But, there are a number of other 'hidden' risks, which could have a far more lasting and serious effect on the profits, suitability and future of your business. These are risks relating to people who are essential to your business. Essential because of their vision, ability, experience or contacts; their position or particular responsibilities; the fact they have secured essential finance; or a combination of all these.

The importance of individuals to the profitable and continued existence of a business is often overlooked. Consider these statistics:

- If you are male and aged between 25 and 40, you have one in five chance that you will die before reaching age 65, or a one in four chance of suffering a critical illness. Source: Social Trends 1995
- 658,000 people a year die in the UK. Source: Social Trends 1995
- Over the next 12 months over 600,000 people will suffer a heart attack, have a stroke or be told they have cancer. Source: Cancer Research Society



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Whatever your requirements, Mardon Financial Advisers have the answers

The loss of a partner, a major shareholder or a key employee can lead to a number of possible scenarios:

- major projects may have to be postponed or abandoned
- key accounts or contracts may be lost
- shareholder confidence could plummet
- the bank may withdraw overdraft facilities or refuse to issue further business loans
- a major share of your business may even pass to an outside competitor.

#### WHO NEEDS BUSINESS PROTECTION?

Any business that relies on a number of highly valuable people needs business protection should a vital player be absent due to serious illness or death. Business protection is designed to help companies keep control of the business, maintain profit levels and safeguard loans.

#### KEY PERSONNEL

Small to medium sized companies tend to have a core of invaluable people without whom the business would lose direction, momentum and sales. Larger companies too still tend to rely on a nucleus of key players.

#### PARTNERSHIP AND SHAREHOLDERS

Partnerships have special business protection needs. They need to be confident that the business would be able to function properly, both in the immediate and more distant future, in the event of a partner's or shareholder's prolonged or permanent absence. Shareholders in a company (especially where there is only a small number of them) can have similar business protection needs if one of them dies, or becomes seriously ill (particularly if he/she plays a key role in the business).



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What are the consequences?

## SOLE TRADERS

By definition, if a sole trader is no longer around, there is usually no business to keep going. Business protection, therefore, is generally for loans, to make sure no debts are left outstanding which would reduce the value of the business left to the heirs.

## THE FINANCE ISSUE

However a business is arranged, it is often the case that loan facilities and bank confidence depend very much on the relationship forged and maintained with one or two particular individuals, and this makes the need for protection even more acute.

Imagine the consequences

Would profits fall? Imagine the following scenario.

Your sales director's knowledge of the market and ability to bring in orders is second to none. His team comprises a number of bright, able but relatively inexperienced individuals, when he dies suddenly, morale plummets and revenue starts to diminish immediately.

Two large prospective clients, who looked set to be a good source of future income, lose confidence and place their orders elsewhere.

Six months down the line, your business forecast is looking frankly unattainable. You cannot afford to recruit a director level replacement – especially now that sales are down.

Appropriate business protection would provide a cash injection, enabling you to bring in the right person at that critical early stage.



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Can you predict the future?

## WOULD YOUR PARTNERSHIP FALL APART?

Suppose you're in a partnership. The success of your business relies on the complementary skills of yourself and your partner. You manage the administration, finance and marketing, while she is responsible for product development, manufacturing and quality control.

When she is diagnosed as having a terminal illness, you are thrown into a quandary. She is obliged to take her share out of the business to pay for medical care. This leaves the business with too little working capital; there is a real danger that it might fold.

Appropriate business protection would assist in enabling you to buy out her interest and ensure that the business has enough working capital to survive.

## WOULD YOU LOSE CONTROL OF YOUR BUSINESS?

Imagine that your business is owned jointly by three shareholders. Each takes an active role in the management of the company. One focuses on UK sales, one on administration and one on exports. Exports form an increasingly important market. When your export director suffers a heart attack and dies, his share of the business is inherited by his wife and her priority is supporting her children, not getting involved with the business. If the remaining shareholders cannot afford to buy her share, she may be forced to look elsewhere for a buyer, whose ideas and methods may not correspond to your own.

Appropriate business protection would mean you could afford to buy her out, ensuring that control of your business remains in your hands.



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Talk to one of our specialist advisers

## WOULD FINANCIAL BACKING FAIL TO MATERIALISE?

Suppose you are in the following position.

Your managing director is a well-known member of the local business community and has a good relationship with your company bank manager. He has arranged a loan to fund product development, which will be crucial to the company's future.

Shortly after, the managing director falls victim to a stroke. It soon becomes plain that his input into the business will change dramatically, despite good recovery prospects. The bank manager now has serious reservations about the company's prospects, without it's driving force and recalls the loan.

Appropriate business protection would mean you could afford to pay off the loan immediately, and funds would be available to replace the lost skills of the managing director.

Call now on **01743 285777**

and speak to one of our specialist advisers or email us [corporate@mardons.co.uk](mailto:corporate@mardons.co.uk)



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