

Pros & Cons of offering a partnership as an alternative to going the franchising route

By Brigitte Jones

So what, you may ask is a partnership, if not a marriage? Whilst a partnership is a most useful vehicle, its success depends, almost always, on the strength of the agreement between the partners, and the performance of each partner according to that agreement (the relationship). As with marriage statistics, it is sadly also the case that one in two partnerships do not survive.

The advantage of a partnership is that it is a fluid arrangement that can be created and dissolved with minimal formality. The administration costs are lighter than other more formal legal entities, as the profits, losses, assets and liabilities are merely recorded and split according to the partnership arrangement to form part of the personal results of each partner.

A common pitfall of partnerships is often the assumption that it should be 50:50 (in the case of two). Ignoring the difficulties arising from decision-making deadlock in a 50:50 arrangement, most often, partners do contribute differently. To illustrate, one partner may contribute most of the capital, whilst the other partner contributes the idea, his ongoing time and experience to the package. More formal structures such as close corporations and companies generally tend to reward most highly the investor contributing the financial capital. A partnership allows for more flexible possibilities.

The downside of an ordinary partnership is the 'joint and several' sharing of liability. As it is not a legal entity in its own right, there is no protection of personal assets from the creditors of a partnership, regardless of which partner incurred the debt. The way around this is a limited (liability) partnership, which as long as it is set up correctly, and documented well in a strong partnership agreement, can achieve the purpose.

The said partnership agreement however, is probably one of the biggest pitfalls in partnerships. It is imperative that the terms of the partnership are well documented in an agreement, formulated in 'good times' with the assistance of a mutually agreed-upon lawyer experienced in partnership agreements. It should cover all aspects of the 'life-cycle' of the partnership, but at a minimum:

- Criteria and conditions for new partner entrants
- Valuation of share for partner exits
- Day to day tasks and decision-making structure
- Salaries
- Profit sharing
- Funding and cash flow arrangements.
- Liquidation

Dire warnings aside, a partnership can, if well used, be a versatile and robust vehicle for doing good business.



How compound interest can make you rich through sound investments

By Anton du Preez

Put in its simplest terms, the phrase compound interest means that you begin to earn interest income on your interest income, resulting in your money growing at an ever-accelerating rate. It is the reason for the success of every person on the Forbes 400 list and anyone can take advantage of the benefits through a disciplined investing program.

There are three things that will influence the rate at which your money compounds. These are:

1. The interest rate you earn on your investment or, alternatively, the profit you earn; e.g., if you are investing in stock, this would be your total profit from capital gains and dividends.
2. The length of time you can leave your money to compound. The longer your money can remain uninterrupted, the bigger your fortune can grow. It's no different than planting a tree. Naturally, the tree is going to be larger when it is 50 years old than it would be at 20 years old.
3. The tax rate, and the timing of the tax, you have to pay to the government. You will end up with far more money if you don't have to pay taxes at all.

Compound Interest Results Over Time and the cost of delay;

The smooth road:
Jim likes to plan ahead and starts planning for his retirement when he is 20 years old. He wants to retire financially independent and to achieve this goal comfortably contributes R200 a month until retirement at age 60.

Over 40 years Jim generates nearly six times what he has invested as a result of the effect of compound interest. Because he started saving early, he has benefited from having his money work for him. His own R96, 000 invested over this period, delivered R570, 000 value payout.

The rocky road:
Meet Bill. He delayed his retirement planning until the age of 40. Bill felt that he was making enough money not to have to worry about it. To accumulate the same retirement benefit as Jim, Bill has to fork out R1 078 a month.

Bill has accumulated the same amount as Jimmy at age 60, but his contribution has been nearly five times higher over 20 years. His total invested amount was R259, 000 compared to Jim's R96, 000. Bill has had to sacrifice much during these 20 years while saving to be able to retire financially independent.

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If you now compared the difference between starting early (as shown in the left hand columns of the table below) and starting later, but saving more (as shown in the right hand columns of the table below), you can see the difference that compound interest can make to your retirement savings.

Opening deposit R10 000 at age 25, with annual investments of R1 000 for first 5 years (which is less than R100 per month!).					Opening deposit R10 000 at 50, annual investments of R1 000 for first 5 years.				
Age	Opening Balance	Amount invested at end of year	Interest earned	Balance at end of year	Age	Opening Balance	Amount invested at end of year	Interest earned	Balance at end of year
25	10,000	1,000	1,000	12,000	25	-	-	-	-
26	12,000	1,000	1,200	14,200	26	-	-	-	-
27	14,200	1,000	1,420	16,620	27	-	-	-	-
28	16,620	1,000	1,662	19,282	28	-	-	-	-
29	19,282	1,000	1,928	22,210	29	-	-	-	-
30	22,210	-	2,221	24,431	30	-	-	-	-
31	24,431	-	2,443	26,874	31	-	-	-	-
32	26,874	-	2,687	29,562	32	-	-	-	-
33	29,562	-	2,956	32,518	33	-	-	-	-
34	32,518	-	3,252	35,770	34	-	-	-	-
35	35,770	-	3,577	39,347	35	-	-	-	-
36	39,347	-	3,935	43,281	36	-	-	-	-
37	43,281	-	4,328	47,610	37	-	-	-	-
38	47,610	-	4,761	52,370	38	-	-	-	-
39	52,370	-	5,237	57,608	39	-	-	-	-
40	57,608	-	5,761	63,368	40	-	-	-	-
41	63,368	-	6,337	69,705	41	-	-	-	-
42	69,705	-	6,971	76,676	42	-	-	-	-
43	76,676	-	7,668	84,343	43	-	-	-	-
44	84,343	-	8,434	92,778	44	-	-	-	-
45	92,778	-	9,278	102,055	45	-	-	-	-
46	102,055	-	10,206	112,261	46	-	-	-	-
47	112,261	-	11,226	123,487	47	-	-	-	-
48	123,487	-	12,349	135,836	48	-	-	-	-
49	135,836	-	13,584	149,419	49	-	-	-	-
50	149,419	-	14,942	164,361	50	10,000	1,000	1,000	12,000
51	164,361	-	16,436	180,797	51	12,000	1,000	1,200	14,200
52	180,797	-	18,080	198,877	52	14,200	1,000	1,420	16,620
53	198,877	-	19,888	218,765	53	16,620	1,000	1,662	19,282
54	218,765	-	21,876	240,641	54	19,282	1,000	1,928	22,210
55	240,641	-	24,064	264,705	55	22,210	-	2,221	24,431

Additional amount earned as a result of keeping the money invested for longer: R240,274

The lesson: start early and stay disciplined!

In fact, using the example above, in order to catch up with the person who started early, if you start later, as in the example above, you will need to save a significant sum of R36,778 per year instead of R1 000. Will you be able to do this?

<https://www.fnb.co.za/retirement/compounding-interest.html>



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6 Points to consider when purchasing a franchise

Purchasing a franchise is an investment in your own business and therefore it carries a risk, like any other investment. Look at the following factors that you should consider before purchasing a franchise.

Demand:

Is there a demand for the products or services offered by the franchise? Is there a demand in your area or in the area that you plan to operate the franchise? Research this carefully by talking to people in the area. If there are no other similar businesses in your area it doesn't necessarily mean that there isn't a demand, it may just mean that no one has caught onto the idea or that no one has the means or technology to run that type of business in your area.

Training and Support:

This is one of the most important points to consider. Ask the franchisor what type of training is given and for how long? Is it hands-on learning, lectures, computer-based learning or a mixture of various types? Does the franchisor have formal training or a degree in this type of business? Will you as the potential franchisee be able to run the franchise successfully without any formal training? Or should you preferably have a background in this particular business area? What about ongoing support, is this offered? Make sure these points are covered in your franchise agreement.

Competition:

Is this market saturated? Or is there still room for growth? How does the franchise measure up to other businesses in the area offering a similar product or service? What does the franchise offer that is unique or different to that of the competition? If there are similar businesses in the area it is important that you can offer something "more!"

Your ability to operate the business:

Before you buy a franchise, ask yourself the question – If the franchisor and the franchise system fails, will I still be able to operate this business under a new name, without the support from a franchisor? Having said that, it must be remembered that franchises are less likely to fail than a stand alone business.

Name Association:

Buying a franchise usually means instant recognition and an association with particular products and or services. So before purchasing a franchise, ask yourself how widely recognised the franchise is? (i.e. throughout South Africa or just within certain provinces or not at all, it could be new.) Ask the franchisor how long it has been operating, how many franchises are there in South Africa and in which provinces? Find out whether the products or services offered are professional and of good quality.

Franchisor's Experience:

Is the franchisor new to franchising? You need to be confident in their ability to run, manage and grow a franchise system. A person may be new to franchising however they may be an exceptional business person with a large amount of experience in running their own business for a number of years beforehand. For franchisors who are new to franchising and are also new to running a business, be sure to ask as many questions as possible and have a thorough franchise agreement in place.

Source: <http://www.franchisefinder.co.za/Article%20Archive/points-to-consider-when-purchasing-a-franchise.shtml>