

Return on Investment

What should I do with additional funds in my business?

Should I re-invest or look at other options?

It comes down to what that money will achieve for you.

Some of your options are:

- Withdraw funds for personal use – travel, new house, new car etc...
- Withdraw funds for personal investment in investment property, share portfolio etc..
- Keep funds in business and invest in income returning assets (commercial property, investment property or shares in public companies).
- Remove funds from business and set up alternative investment structure for commercial property, investment property or share portfolio for example.
- Remove funds from business and start or purchase a new business, this could be one that aligns to your current business. For example a mechanics shop might purchase a tyre shop. Looking at whether to buy a business or set one up from scratch is a subject on its own.
- Keep funds in business and have in interest bearing account for a rainy day.
- Use funds within business to increase income earning possibilities.

The only way to decide on what you are going to do is to analyse each scenario and see what is going to happen over a five year period. No-one can foresee the next five years but a good forecast can give you some idea of what investment is going to be the better one. Five years is just my opinion as I feel it gives you enough time to see some trends and capital growth potential.

For the first five items above you can use current average returns to predict what your return on investment is going to be in say five years' time. This takes a little time but it is not difficult to do – just be aware of both income returns and capital returns that you may achieve.

There may also be a difference in the taxation of different investments so that needs to be taken into account. But one piece of advice I will give is never make an investment decision based on tax - make it based on returns. Remember the more tax you are paying the more money you are making.

That doesn't mean though that tax effect doesn't come into the equation when working out return on investment.

The last one is a little more difficult but if you know your business well then you should be able to calculate this.

The sorts of things you should be looking at are:

- If I buy this new piece of equipment – what will it do for my business? How much more can I earn by doing things quicker, increasing my output numbers, improving the quality of my product.
- Or what business will I lose if I don't purchase this new piece of equipment that all my competitors are using to do things more efficiently.
- If I take on a new staff member how long will it take for them to be earning me more money. Will this give me more time to grow my business?
- If I move into new premises will this improve my ability to earn income, will it give me better exposure? Should I buy the new premises rather than leasing?
- If I give all my staff a salary increase and a company car will this make them work harder and will I get the return on my investment?

If you are in the envious position of having to make this decision it can be really difficult to find one person to advise you on all the above.

First try and prepare some goals for yourself. Then take this to someone you feel has a knowledge of numbers and ask them to check your expectations and calculations.

It won't be something you can do quickly and the more time you take to make the right decision the better.

Only you can make the final decision about what is going to be best for your business.