

Welcome to the third newsletter from the Allied Insurance Group. We are a co-operative of 24 independently owned insurance brokers operating throughout New Zealand. Because of our combined strength we are able to secure for our clients competitive terms and conditions.

In our last issue we advised that the major insurance companies were increasing their premiums because of severity of the storms from last year. The storms we have all just experienced were more widespread and are expected to cost the industry more. In the middle of all this we had the Gisborne earthquake, while not severe caused a considerable amount of damage.

We trust you will find this newsletter interesting and if you have any comments your Broker would be pleased to hear these from you.

### MAKING BETTER USE OF YOUR TIME

Like many of these catchphrases, “working smarter, not harder” is all very well in theory but how do you go about it?

Many business owners are buried inside their business. Do you recognise that feeling of reaching 3 o'clock in the afternoon and wondering where the day has gone? You can't think of anything really valuable or useful you've done other than “fire-fighting”. As a consequence, one day is much like another. You get ground down, tired out and your results never seem to improve no matter how hard you work. It's even more frustrating to know you're not making good use of time and to feel powerless to be able to do anything about it.

However, there is a simple strategy you can implement immediately which will take you further and faster towards the goal of working less and making more.

### A SIMPLE FOCUS STRATEGY

Typically the things that are going to give you success in your business are not “day to day” activities. They're initiatives or projects or processes, and they only move forward if you move them forward.

Successful business owners have a clear sense of what they are trying to achieve in

the medium and longer term, what they need to do today to get closer to those objectives, and then they allocate time to that activity – at the expense of short term “day to day” stuff.

Your time is your most valuable resource. Stop wasting it.

We've got a very strategy you can start right now. First, identify a growth goal or a target three or six months out. It's got to be something you won't achieve without a special effort. Then get into this simple daily habit of:

- Identifying the action(s) you can take today to get you closer to your objective
- Spending your first hour at work on those actions. Before you open your email. Before you return calls. Before you make a cup of tea. Before you deal with the first crisis of the day.

What you'll find

- You feel like you've done a decent day's work after an hour, and feel better all day
- You'll make steady progress towards your most important goals
- You'll begin to realise that most of the urgency in “firefighting” is only in your head

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### INSIDE ARTICLES

Insurance - Building costs set to rise again

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Ever Wonder

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Top 10 reasons for business failure

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Liability Insurance - Who needs it?

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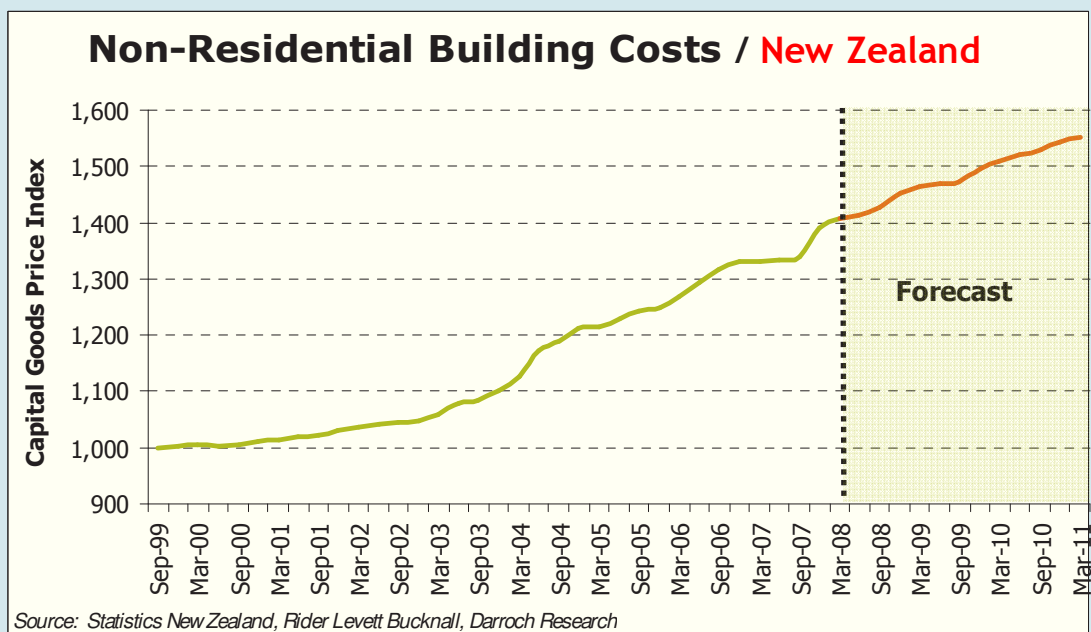
Geese Facts



## INSURANCE - BUILDING COSTS SET TO RISE AGAIN

Commercial building costs have risen dramatically in the past five years and are expected to rise even further according to latest forecasts. Darroch Valuations is advising all building owners to check that their current level of insurance cover is adequate for reinstatement of their property asset. Auckland Manager John Darroch says "It's astonishing how quickly building costs have escalated in the last few years and the impact this has had on reinstatement cost. Owners need to ensure they stay abreast of rising construction costs".

The Capital Goods Price Index (CGPI) provides an official measure of cost movements in the non-residential building sector. It is tracked by Statistics New Zealand and according to their latest analysis the index currently stands at 1340 points. Rising costs in structural steel work and fit out of electrical services are cited as two key factors behind escalating building costs. Looking forward, international company Rider Levett Bucknall (RLB) are forecasting non-residential building costs to rise to 1465 points by March 2009 and over 1500 points by March 2010.



This means that a non-residential development which hypothetically might cost \$1,500 per square metre today will rise to \$1,650 psm to replace by 2010 (index = 1500). An average building of 400 square metres costing say \$600,000 to build today, will cost \$660,000 in two years time.

Mr Darroch believes that most owners try to keep an eye on costs and generally seek out expert assistance. He says Darroch clients are in good hands "Our advanced systems activate reminder letters to our clients that an insurance update is due. This way, our clients are able to manage their assets effectively. Our clients are always appreciative of this important reminder. It's part of our dedicated service."

Article courtesy of Darroch Valuations [www.darrochvaluations.co.nz](http://www.darrochvaluations.co.nz)

## EVER WONDER?

Why the sun lightens our hair, but darkens our skin?

Why women can't put on mascara with their mouth closed?

Why don't you ever see the headline "Psychic Wins Lottery"?

Why is "abbreviated" such a long word?

Why is it that doctors call what they do "practice"?

Why is lemon juice made with artificial flavour, and dishwashing liquid made with real lemons?

Why is the time of day with the slowest traffic called rush hour?

When dog food is new and improved tasting, who tests it?

You know that indestructible black box that is used on airplanes? Why don't they make the whole plane out of that stuff?

Why don't sheep shrink when it rains?

Why are they called apartments when they are all stuck together?

## TOP TEN REASONS FOR BUSINESS FAILURE

According to The Main Report the reason businesses fail is because:

1. Inadequate accounting records. In other words, failure to properly manage cash flow. Cashflow is the lifeblood of any business. When you are out of it, you are likely to end up finished.
2. Disregarding or misinterpreting financial records. Numbers do tell a clear story. If you disregard the story or misinterpret it, surprises are just not likely; they're a virtual certainty.
3. Not controlling costs. You must be in control of all costs. As stated above, when you run out of cash you're business is dead.
4. Inviting fraud through poor internal controls. It's your money. Keep a close watch on it.
5. Improper or inadequate planning. It's always surprising how many small business owners treat what is probably their first or second most valuable asset with such casual attitude.
6. Failure to sell aggressively. Aggressive is being where the customer is with what the customer wants at a price the customer finds acceptable.
7. Insufficient working capital. A small business can only borrow so much before it becomes a case of throwing good money after bad.
8. Not carrying adequate insurance. Some time and money invested up front will more than pay for itself should the need for insurance arrive.
9. Failure to adequately train employees. This is usually a failure, which can be overcome and won't kill a business by itself but without training, your business will not be running at optimal levels.
10. Not seeking professional help or advice when needed. Seeking help is not a sign of weakness or lack of intelligence. It shows the business is growing and the owner must grow with it.

Article courtesy of The Main Report  
[www.themainreport.co.nz](http://www.themainreport.co.nz)

## LIABILITY INSURANCE – WHO NEEDS IT?

New Zealand, is a relatively non-litigious country. And this often translates to much lower priced insurance for general liability and professional negligence policies and a more relaxed attitude by many businesses and individuals to the need for insurance to protect them against legal liability. The experience of many lawyers in the business of representing such individuals and businesses is that this can lead to quite catastrophic results.

Think of the following. A small business owner has a major fire and loses most of his or her stock and fixtures and fittings. In the absence of insurance, such a fire would be devastating, but the small business owner would still have a business, including other assets such as possibly the land, non-tangible assets and, of course, the business name. Whilst difficult, it is conceivable that a business could rise from the ashes and rebuild itself. But, of course, no responsible business owner would consider exposing his or her business to such risk by failing to insure against such an eventuality. This type of risk is covered by material damage insurance.

The other common type of insurance provided to businesses is liability insurance. This protects the policy holder against claims by other parties but, unfortunately, it is often treated a poor second cousin to material damage insurance. In this regard, sums insured are often inadequate or the business owner elects not to take out the liability insurance. This can be a decision of monumental consequences. In many ways, although clearly not recommended, it would be better to forego material damage insurance than liability

insurance. If an uninsured building burned down or there is a major burglary, it is quite possible that the business could survive. But if the business is sued and found liable for negligence, defective product or other liability, the cost of defending the proceedings and any judgement against the business could entirely wipe it out.

And even those among us who never make mistakes could be crippled by a court claim against them. Many cases arise in which an aggrieved person issues court proceedings against another party in circumstances in which those proceedings are unmeritorious or very unlikely to succeed. The party sued incurs the cost of defending the proceedings, and these can be significant. Even if successful, costs awards are only a very small contribution to the overall cost of defending litigation. So, no matter how careful you are or confident that your business practices do not expose you to liability, liability insurance is an essential risk management tool in any business.



Some real live examples of relatively small oversights or mistakes that have exposed small businesses to significant liability include the following:

- The small-time metal fabricator who manufactured racks for a cool-store company. When having the racks galvanised, he forgot to properly vent the fabrication, causing an explosion and a claim of over \$2m for damage to the galvanising plant.
- The electrician who was undertaking a minor repair job for a small factory. The factory suffered significant fire damage and it was claimed that the electrician was at fault. The claim, including loss of profits as a result of the damage to the factory, was in excess of \$10m. So, businesses need to consider very carefully whether they are prepared to take the risk of operating without adequate liability insurance. In many ways, it is more important than insuring physical assets.

How does a business reduce the risk of being sued? One answer is its terms of trade. Within the limitations provided by consumer legislation such as the Consumer Guarantees Act 1993 and the Fair Trading Act 1981, it is possible to limit significantly the potential exposure of a small business to liability arising from work undertaken for its customers. With carefully worded terms of trade and effective processes to ensure that they are put in place, losses can be significantly reduced. Indeed, in some circumstances well drafted terms of trade could provide your broker with a good bargaining tool for reduction in your liability insurance premiums. And while you are thinking about drafting terms of trade, with a few carefully worded clauses and the appropriate processes for implementation, a small business can significantly improve its ability to recover costs from slow payers.

Just as important as the written document is the process by which these terms are agreed with the customer. For example, except in the case of a regular customer, there is no point at all in putting terms of trade on the back of an invoice. By the time the invoice is issued, the work has been undertaken or the goods have been supplied, and therefore the contract is concluded with the customer. Where possible, terms of trade should be agreed before the contract is finalised. Clearly, this is not possible in many businesses such as retail supply, but in commercial transactions it is important that the terms of trade are recorded and agreed before the contract is entered into. Many cases arise where claims are made against a business for negligence, only to find that the carefully drafted and extensive terms of trade are not effective because they were not agreed to by the customer before the work was undertaken or the product was supplied.

In summary:

- Liability insurance is arguably more important to a business than material damage insurance but, unfortunately, many businesses do not understand the importance of this insurance, either because they are confident they will not make mistakes or they do not understand the actual cost of defending litigation, whether you are right or wrong;
- The exposure of a business to liability can be managed by well drafted terms of trade;
- There is no point in having well drafted terms of trade if they are not implemented in such a way as to make them enforceable when they are needed.

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## GEESE FACTS

Next fall when you see geese heading south for the winter... flying along in V formation...you might consider what science has discovered as to why they fly that way:

As each bird flaps its wings, it creates an uplift for the bird immediately following. By flying in V formation the whole flock adds at least 71% greater flying range, than if each bird flew on its own.

People who share a common direction and sense of community can get where they are going more quickly and easily because they are traveling on the thrust of one another.

When a goose falls out of formation, it suddenly feels the drag and resistance of trying to go it alone... and quickly gets back into formation to take advantage of the lifting power of the bird in front. If we have as much sense as a goose, we will stay in formation with those who are headed the same way we are.

When the head goose gets tired it rotates back in the wing and another goose flies point. It is sensible to take turns doing demanding jobs...with people or with geese flying south.

Geese honk from behind to encourage those up front to keep up their speed. What do we say when we honk from behind?

Finally...and this is important...when a goose gets sick or is wounded by gunshots, and falls out of formation, two other geese fall out with that goose and follow it down to lend help and protection. They stay with the fallen goose until it is able to fly or until it dies, and only then do they launch out on their own, or with another formation to catch up with their group.

If we have the sense of a goose, we will stand by each other like that.