

# Business Financing Network

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## **Need a Financial Advisor on Your Management Team?**

By Alan Kenyon

Successful entrepreneurs often rely on trusted advisors to help grow their businesses. Those informal “management teams” usually include paid professionals such as attorneys, accountants, and marketing advisors.

Unpaid and informal “boards of directors” sometimes are comprised of respected associates with an array of business and professional backgrounds. Those people genuinely care about the entrepreneur’s success and serve as an objective and dispassionate sounding board for ideas and advice.

Entrepreneurs often neglect including a financial planner on their advisory teams—even though they may use such a professional for their personal finances. The enterprise’s financial well being directly affects one’s personal finances, so it just makes sense to have such advice for the well being of the business. A financial advisor can be especially valuable for companies in the following situations:

### **When Seeking New Financing**

New financing often is necessary to grow and expand the business—perhaps to open a second location or to take on a major new product line. Will taking on new debt have the desired return on investment? What’s the best source of financing? Should financial investors or “angels” be given an equity position?

The entrepreneur seeking new financing needs to understand all the financial options to select the best choice. A financial planner will analyze the current and future capital needs for the enterprise and help select the best financing route.

### **Passing the Business on to a Family Member**

Entrepreneurs often want to turn the business over to family members—perhaps to their daughters or sons. It can be a very rewarding and exciting transition, if done right. Unfortunately, the situation also can be fraught with tension and potential ill feelings, particularly there are more than one child or relative to consider.

A planner can provide the parties with a current financial picture of the business and projections into the future. She can factor the “value” or “worth” of various positions in the company one or more of the parties will actively play in the enterprise, compared to

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others who will play a passive role. That can help the parties see that compensation and salaries received by working members are fair and reasonable.

## **Using the Business as a Retirement Vehicle**

Businesses sometimes become retirement vehicles for the owners. Retirement planning often involves personal financial advisors, but if the business is part of the equation, the planner needs to look at the entrepreneur's entire financial picture and should have a good understanding of the business.

A professional can give valuable advice on how best to position the business for eventual sale or how it may be set up to enable new owners to fund the entrepreneur's retirement by financing the sale of the business. The time to start such planning is not just months, but years ahead of the anticipated retirement date.

## **Planning to Become a Franchisor**

Turning the business into a franchisor and growing through selling franchises can be an excellent growth strategy. It can expand the company very significantly by taking on franchise partners who provide the financing.

Developing a franchise model, though, is a difficult and complex task. A financial planner versed in franchising should become part of the thought process before time, effort, and money is invested in an endeavor that might not be best for the owner.

## **Developing an ESOP**

Small business owners sometimes decide to give employees shareholder status in the company. They seek a strategy that can be profitable for the business and provide employees with an ownership stake in the company's success. An Employee Stock Ownership Plan (ESOP) may be a viable growth and management option.

Setting up an ESOP naturally involves a whole array of legal and accounting issues. A real "crystal ball" looking into the future is vital because so many new shareholders will be created with the new program. Different plans, formulas, and models need to be projected. An experienced planner can provide those different forecasts.

## **Conclusion**

The above examples illustrate a few circumstances when a financial planner should be made part of the small business management team. The entrepreneur has a good start on handling new challenges and opportunities if a planner—or a professional with

appropriate expertise—already is on the advisory group. If, on the other hand, such expertise is lacking, the gap should be filled before major strategic decisions are made.