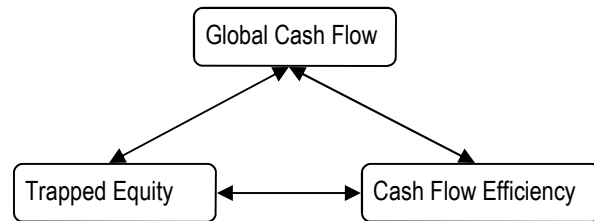


# BUSINESS FINANCE FOR ENTREPRENEURS

The owners of closely-held businesses face many financial challenges but also have many opportunities. As the global economy changes and the world becomes flat it is essential for business owners to consider alternative approaches to finance in order to promote the growth of their enterprises. There are three aspects to this, as shown at right.



## Global Cash Flow

While it is essential to keep personal and company accounts separate for tax purposes it is useful to consider the overall cash flow of the two entities taken together. Personal equity and credit resources can be tapped to provide a source of cash for the business. Likewise, business cash flow can be leveraged to provide maximum benefits to the owners. Deciding the optimal strategy requires a comprehensive analysis of the cash and tax consequences from both perspectives. For example, is it better to have the business pay 100% of health insurance as an employee benefit or to establish a Health Savings Account for the owner to pay the costs from his personal funds?

Sometimes business owners (or their spouses) are reluctant to put their home "at risk" to finance their business. There are non-resource loans and unsecured lines of credit available which do not use personal assets as collateral. However, one must realize that the home is still at risk if the business cannot generate enough cash to enable the owner to pay the mortgage and taxes. The reluctance also sends a message to potential lenders or investors that the business owner lacks confidence in his or her own enterprise.

## Releasing Trapped Equity

Entrepreneurs have equity in their personal and corporate assets. This is typically in the form of real estate holdings but sometimes includes vehicles, equipment, inventory and receivables. While it is comforting to have this equity the ROI on real estate is zero until the property is sold. This money could be put to work more effectively elsewhere. The conventional wisdom of paying off a real estate loan as quickly as possible results in trapped equity as well as reduced available cash flow.

There are other investment vehicles that can often provide better returns than real estate equity, including cash value life insurance & life settlements, annuities, bonds, REITs, stocks and mutual funds. The appropriate choice depends on one's risk tolerance and the tax implications of the decision.

## Cash Flow Efficiency

All businesses have to pay for certain goods and services that are required to operate the enterprise – the "cost of doing business". However, there are differences in the cash efficiency of different ways of obtaining some of these items that can have significant impact on cash flow. The traditional approach may not be the best, in all cases, as shown in the table below.

	Traditional Approach	Innovative Approach
Equipment	Buy	Lease
Staff	Hire employees	Hire contractors or outsource
Inventory	Stock up for future requirements	Purchase Just In Time
Customer Credit	Send invoice and wait for payment	Use factoring or asset-based lending
Facilities	Rent/Lease	Buy using the most favorable cash flow terms
Operating Expenses	Accept the cost or make budget cuts if too high	Have experts review bills to find errors or inefficiencies
Financial, Mortgage and Insurance Planning	Dis-integrated advisors for each product	Use of integrated team of advisors

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