

FINANCIAL PLANNING STRATEGIES FOR EACH BUSINESS STAGE

START

YOU WORK YOUR BUTT OFF AS A BUSINESS OWNER TO BUILD AN ENTITY THAT IF YOU ARE LUCKY PROVIDES YOU THE INCOME YOU WANT TO SEE THROUGHOUT YOUR LIFE.

ONE OF THE GREAT THINGS ABOUT BEING A BUSINESS OWNER IS YOU HAVE ACCESS TO STRATEGIES THAT MOST OTHER PEOPLE DO NOT.

THEY ALLOW YOU TO PUT MORE AWAY, BE MORE TAX EFFICIENT, AND JUST GENERALLY HAVE BETTER FINANCIAL OPTIONS.

ALL OF THESE STRATEGIES ARE MEANT TO NOT ONLY HELP THE BUSINESS, BUT ALSO TO MAKE SURE THE OWNER CAN AVOID THE BUSINESS OWNER CONUNDRUM.

THERE ARE GREAT FINANCIAL STRATEGIES FOR EACH STAGE OF THE BUSINESS CYCLE, SO WE WILL GO INTO WHAT TO CONSIDER AND WHY.

LETS DIVE IN

STARTUP STAGE

THIS INITIAL STAGE IS A STAGE THAT ANY SUCCESSFUL BUSINESS OWNER WENT THROUGH AND MANY FUTURE SUCCESSES (AND FAILURES) MAY BE GOING THROUGH NOW.

THIS IS BY FAR THE MOST CHALLENGING PART OF BUILDING A BUSINESS IS SURVIVING THE INITIAL STAGE. MANY WILL FAIL AT THIS STAGE, BUT THE ONES THAT SUCCEED WILL BE PROPELLED TO THE NEXT STAGE AND BEYOND. EMBRACE THE GRIND OF THIS STAGE.

FOR THE START-UP STAGE, ONE OF THE BIGGEST KEYS TO SUCCESS IS TO POUR AS MUCH MONEY AS YOU CAN BACK INTO THE BUSINESS TO SEE IT PROPORTIONALLY GROW.

THEREFORE, THE BEST STRATEGIES IN THIS STAGE ARE:
PROTECTION, GROWTH, AND TAX-EFFICIENCIES.

PROTECTION:

INSURANCE

Non- personal insurance (P&C, professional, etc.), Personal insurance (life, disability), and any insurance that protects your business and you.

BUDGET

Think of finance as the blood of the business body. It needs to be flowing in order for the other parts of the business to work. The budget helps to define that flow.

DEBT REPAYMENT/MANAGEMENT

By handling debt effectively in both your personal as well as business you use debt as the tool it can be.

LEGAL ENTITY

The legal entities are Sole Proprietorship, S-corp, LLC, and C-corp. Generally speaking, look at your industry, your size, your business type, and make a strategic decision.

BUSINESS/PERSONAL RAINY DAY FUND

A rainy day fund has 3-6 months of living expenses in a savings account to protect yourself from the inevitable unknowns in business.

ACCOUNTANT

A truly valuable accountant will be able to look proactively forward and help you determine what investments make the most sense financially, but also in regards to taxes.

FINANCIAL PLAN

By getting a financial plan in place it will help keep you focused because you know that you have something in place for your personal finances as well.

PAY DEDUCTION ROTH IRA

A payroll deduction Roth IRA is a strategy that allows you to contribute directly to an account (Roth IRA) from payroll.

INVESTMENT:

SEP

A plan created to give business owners and employees an opportunity to fund a retirement plan for themselves and get a potential tax benefit as well.

UNI(K)

The Uni(k) is a 401(k) plan designed so that only one person can participate in it.





GROWTH STAGE



You have worked your butt off through the “start-up gauntlet,” surpassing all challenges standing in your way. You are now starting to get the hang of the business, you see light at the end of the tunnel for the business is moving in the right direction.

Once you get to this part of the business cycle, the business should be scaling appropriately. You should still be pouring money back into the business, but you can now begin to invest in other ways.

The priorities in this stage are employer and employee benefits to protect the business, fund investments, and continue to be tax efficient.



RETIREMENT:

SEP

A plan created to give business owners and employees an opportunity to fund a retirement plan for themselves and get a potential tax benefit as well.

SIMPLE PLAN

A retirement plan for small businesses that allows employees to contribute an amount from their paycheck on a tax-deferred basis and get a match too.

401(K)

A highly customizable retirement plan that allows all contributions to go into the plan pre-tax and grow tax-deferred.

403(B)

This is similar to a 401(k) except it is for non-profits and public organizations.

457 PLAN

A supplemental retirement plan only available to non-profits and public organizations that allows you to contribute extra money for retirement.

DEFINED BENEFIT PLANS

These are complex compensation plans that are typically considered by big companies. These plans are most popularly known as “pensions.”

DEFERRED COMPENSATION PLAN

Is a special compensation option where a defined benefit is funded at present and promised to the employee at a future date.

LOAN PAYMENTS

This benefit is where the employer offers loan assistance. Typically, the assistance is for student loans, but in theory can be extended out to others.

FINANCIAL PLAN FOR TEAM

This is where the business pays for financial plans by a CFP® professional for the leadership team or employees.

KEY PERSON INSURANCE

This is life insurance that is paid for by the business to cover the life of a valuable employee in order to cover the financial void that would occur if they died.

EMPLOYEE BENEFITS:

HEALTH INSURANCE

This is where you spread out the risk for health insurance over a group, which lowers the cost and it should be one of the first benefits you consider as an employer.

GROUP INSURANCE

The two main types are Life insurance and Disability, which can be designed as business pays (non-contributory) and employee pays the premium (contributory).

EXEC COMPENSATION

An executive compensation plan is a plan designed to provide a benefit to executives using various strategies.



MATURE STAGE



You have worked your butt off to get the business over all the humps and challenges that will inevitably be presented to you and your business. You grew your business successfully and you are at the point you can focus on maintaining as opposed to rapidly growing.

At this time the priorities shift slightly once again. You have probably implemented some group benefits like in the growth phase, which means you can begin to explore additional benefits for you.

We continue to focus on tax efficiencies, but now with a focus on benefits for the founders and the leadership team while beginning to look at succession.

STRATEGIES

REAL ESTATE

This option is less a benefit and more of a strategy. Most business owners will get to a point in time where they make too much money to take advantage of many deductions. Real-estate helps with not only taxes, but also the scalability of the business.

PERSONAL AND BUSINESS SEPERATE

In order to avoid the Business Owner Conundrum, then you need to make sure you find the correct balance of business and personal.

ESTATE PLANNING

We begin to consider strategies to prepare for the continuation of your business either when you take a step back or if something were to happen to you starting with the personal side.

CROSS PURCHASE/ENTITY PURCHASE

This strategy is where the business owner purchases a life insurance plan on their successor and the successor purchases one on the business owner for continuation purposes.

COMPENSATION

PROFIT SHARE

The purpose of this plan is to share the profits and growth of the business with anyone who helps contribute towards it. It can be set up through a 401(k), deferred comp plan, etc.

EXECUTIVE COMPENSATION

This is another strategy that can be used to either put extra money away as a business owner or to reward valuable employees at a future date.

DEFERRED COMPENSATION

This benefit will create a deferred compensation package that they will not need to claim on their taxes immediately and you can write off once they receive it.





EXIT STAGE



We now talk about the final stage in the business cycle, which many people will not achieve and frankly, some will not want to reach.

There are many business owners out there that were fortunate enough to have this option and don't want to stop working in the business they worked so hard to build.

In this stage it is time to begin looking at how you can fully capitalize on the business, how you can transfer ownership in a tax-efficient way, and you can make sure the legacy you built around the business will continue forward long after you are gone.

EXIT STRATEGIES

BUYOUT

THIS IS WHEN THE SUCCESSION IS DEPENDENT ON THE SUCCESSOR BUYING OUT THE SUCCESSEE. THERE ARE SEVERAL STRATEGIES THAT CAN BE CONSIDERED AT THAT TIME. REVENUE BUYOUT, LUMP SUM BUYOUT, AND A SELLERS NOTE.

ACQUISITION

THE NEXT STRATEGY TO LOOK AT IS GETTING YOUR BUSINESS SOLD OR ACQUIRED. THIS IS ONE OF THE CLEANEST AND QUICKEST WAYS FOR A BUSINESS OWNER TO CAPITALIZE OFF THE BUSINESS ASSET THEY CONSTRUCT.

FRANCHISING

THE FINAL EXIT STRATEGY THAT CAN BE USED IS A FORM OF ACQUISITION. THAT IS BUILDING A FRANCHISE MODEL OUT OF YOUR BUSINESS. WHY WOULD THIS BE USED? THINK OF FINDING MANY SUCCESSORS INSTEAD OF ONE SUCCESSOR.

ESTATE PLANNING

AT THIS POINT, YOU NEED TO GET AN ESTATE ATTORNEY INVOLVED. MAKING SURE YOUR WILL IS UPDATED, BUT FOR THOSE OWNERS WHO ARE LUCKY ENOUGH TO HAVE AN ESTATE TAX PROBLEM, YOU MAY WANT TO CONSIDER SOME SORT OF TRUST. THESE ARE SOME OF THE MORE ADVANCED ESTATE PLANNING STRATEGIES THAT SHOULD BE CONSIDERED.

LTC

THIS IS ANOTHER STRATEGY THAT SHOULD BE CONSIDERED, BUT WILL NOT BE A DIRECT BENEFIT FROM THE BUSINESS. LONG-TERM CARE IS SOMETHING THAT SHOULD BE LOOKED AT AROUND AGE 50 IN ORDER TO PROTECT THE FINANCIAL PLAN YOU CONSTRUCTED.

THE IDEA OF LONG TERM CARE IS INSURANCE AGAINST THE CHANCE YOU NEED SOME SORT OF ASSISTED LIVING HELP AS YOU BEGIN TO AGE. THIS CARE IS IMMENSELY EXPENSIVE AND CAN IMPACT YOUR BUSINESS LEGACY, SO TO OFFSET THE RISK OF THAT HAPPENING, YOU PUT THIS INSURANCE IN PLACE.

Business is one of the most difficult investments one can make in their lifetime. It is risky, challenging, and never the same. However, if you can get through those difficulties, then it can be one of the most rewarding ventures you ever take part in.

Always remember that you should keep your personal financial goals in mind and fund those as much as you can.

We hope this resource helps to clear up some of the decisions and options that can be considered from a business.

If you ever have any questions or want to talk about some of these strategies, please don't hesitate to reach out to our firm. Centennial Financial Group, LLC is always willing to help where we can.

We look forward to it.

Thank you for your time!

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