



Smart Business Owners Finish Rich

David Bach July 1, 2008 CATEGORIES: [WEALTH /MONEY MAKING IDEAS](#), [WEALTH](#)

Owning your own business can be extremely rewarding and, if you do it right, should lead to great wealth. However, it can also result in long hours, exhausting work and, ultimately, very little wealth.

That's because many business owners are so busy running their companies that they don't plan for their own long-term financial success. Many go into business expecting to sell their companies someday for large profits. It does happen—sometimes. But for many, it's a myth. You invest, reinvest, work your tail off and put every extra dollar back into the business. But the endgame is often unclear and the stakes are very high.

Before I launched FinishRich Media and became a bestselling author, I spent almost a decade as a senior vice president and financial advisor at Morgan Stanley. During my time there, I met a lot of millionaires, many of them entrepreneurs and small-business owners. In working with them, I had the privilege to learn some of their secrets, which I used to grow my own successful company. Ask yourself the following six questions. Your answers will determine whether you're on the path to finishing rich.

1. Do you have a “walk-away number”? If you were to sell your business, whether for retirement purposes or otherwise, what is the minimum dollar amount you could or would accept to walk away from the business?

Most business owners have plenty of passion and purpose for their businesses. But they often lose focus on the third “P,” profit. They work the 60-, 70-, 100-hour weeks. They invest and reinvest. They love their business. That's great, but it's critical to think about what you want out of the business financially. Knowing your “walkaway number” keeps you focused on achieving financial goals. Eventually, you'll get more out of the business than you put in.

2. Do you treat your business like a business? I literally started my company in my kitchen. But the informality of it ended right there. If you're serious about creating wealth in a business, you've got to be serious about the business. That means setting it up right from the start by deciding on a proprietorship, partnership, corporation or limited liability company (LLC). I had my business incorporated even before I printed my business cards.

Sit down with an accountant to determine which structure is right for you and then set up the books. Separate your business finances from your personal finances. No more office supplies bought with grocery money. No more car repairs paid with business cash.

3. Do you pay yourself first? Unfortunately, many business owners don't take the time to deal with planning for retirement. Hoping to someday sell your business and live off the profit is not a sound retirement strategy. Rather than pour your heart—and your money—into the business and end up with little to show for it, you've got to start paying yourself first. I'm not just talking about salary and draw here. I'm talking about setting up a retirement account for yourself, which allows you to keep a percentage of every dollar that comes into your company. Paying yourself first means this savings will be tax-deductible so you avoid paying state and federal tax on your earnings.

Taking advantage of the government's generous tax breaks for business owners can truly make you rich. Not taking advantage is one of the biggest failings I see. According to a recent survey, some 64 percent of business owners are delaying their retirement because they don't have enough savings.

Start by choosing the right plan. The SEP IRA and solo 401(k) plans are two of my favorites. The SEP IRA allows a business owner to save the smaller of 25 percent of income or \$46,000 per year (2008) if the business is an S or C corporation or an LLC taxed as a corporation. The limit is 20 percent of income, adjusted for self-employment tax, if a sole proprietorship, partnership or traditional LLC.

The solo or individual 401(k) plan combines the best features of a profit-sharing plan with a traditional 401(k) salary deferral plan you may be familiar with as a wage earner. It allows you to set aside up to \$15,500 from your salary or draw (or \$20,500 if you're over 50), all pre-tax, regardless of business income. Then, on top of that, you can set aside 20 to 25 percent of net business income similar to the SEP-IRA rules above. That's huge.

And in the unlikely event of bankruptcy, these assets, unlike other business or personal assets, are generally protected. The point is to start early. Get into the mindset of setting aside for yourself an hour's pay a day, a day's pay a week or the first 10 percent. Your future depends on it.

4. Have you bought your real estate? The best way to get rich in business is to own the real estate where your business is based. I once had a friend in the furniture business. Over time, with increased competition from the big chains, his business plummeted. But guess what? Along the way he bought his building. When the business closed, the building was worth \$3 million. He retired off the building, not off the business.

I can't say it often enough: Buying your real estate gives you the best chance to get wealthy in business. If done right, the real estate pays off regardless of what happens to your business. You can buy the real estate personally or in a separate LLC and lease it to the business. The LLC gives additional liability protection and you can adjust payments to get the best tax outcomes. And if you sell the business, you can still rent the real estate. Businesses that don't do this get caught in the rent trap. Rents rise. You end up paying more and competition moves in.

I saw this myself as a resident of San Francisco's Marina District. The little storefronts went belly-up as the big chains moved in. If they'd owned the building, they'd still have something. Buying the real estate builds wealth while protecting the business. Don't think you can do it? Move, downsize or co-locate. Be creative. And that applies to financing, too. Negotiate hard for something you can pay off in 5 or 10 years. Buy smart and finance smart.

5. Do you align your business with a charitable organization? Build wealth by giving it away? Sounds strange, but read on. Building morale is one of the best things you can do in your business. When your employees and customers know you're not just about profit, they'll treat you differently.

My business gives a steady 1 to 2 percent back to charity. I make significant cause-related donations from specific project proceeds. My Automatic Millionaire Homeowner Challenge generated \$175,000 for the local Habitat for Humanity. And my new book *Go Green, Live Rich* will help Waterkeeper Alliance, a grassroots organization protecting and preserving our waterways.

Employees will feel good about you. Customers will feel good about you. You'll feel good about yourself. It's a win-win-win. Remember: Businesses that do good, do well.

6. Do you have a green plan? Take a good look at what the most successful companies are doing to become good stewards of the environment. Look at Google, Honda, Continental Airlines, PG&E, SC Johnson, Goldman Sachs—the list goes on and on.

This isn't just a trend. Green is the future. Your customers will demand it. Your employees will insist on it. Providing an environmentally friendly workplace has a huge impact on employee productivity as well.

The Lawrence Berkeley National Laboratory in Berkeley, Calif., conducted a study that found that, in the United States alone, estimated potential annual savings and productivity gains from better indoor environments to be \$6-\$14 billion from reduced respiratory disease, \$2-\$4 billion from reduced allergies and asthma, \$10-\$30 billion from reduced "sick building syndrome" symptoms, and \$20-\$160 billion from direct improvements in worker performance unrelated to health. And according to an article in the Wall Street Journal last year, green companies even attract younger talent.

Building wealth in your business means starting it right, doing it right and thinking about the big picture. Make the right choices, and you'll be sure to succeed.

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