

*Our mission is to shepherd as many business owners as possible to fulfillment of their goals and their ideal lifestyle.*

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## What Kind of Business Owner Are You

By

Joan M. Ridley, CFP™, CEPA, CBI

The better question is “how do you derive your income”. According to author Robert Kiyosaki you have four choices.

You are either ...

- An Employee
- Self-Employed
- A Business Owner
- An Investor

Since most who read this article will be either self-employed or business owner, I will focus my comments on those two. Let's compare them.

### Self-Employed Compare to Business Owner

#### Self-Employed

- You are the business
- The enterprise would not thrive and grow if you were absent for a few months
- You have a direct relationship with the clients, customers, and vendors
- There is little or no infrastructure
- You might call your enterprise a “firm” and those who hire you “clients”
- You might not have recurring revenues
- Your enterprise has no value, except maybe as an earn-out with little or no cash down
- Your enterprise might produce significant cash flow and support an attractive lifestyle

#### Business Owner

- You own a self-sustaining entity
- You could take several months off and your business would thrive in your absence

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- The business does not depend on your relationship with customers or vendors
- The business has structure and documented systems that are transferrable
- You probably have recurring revenues
- The business has value to potential acquirers
- You might have customers, not clients
- You reinvest in your business

### **Can a Self-Employed Enterprise be Converted to a Business**

Some self-employed enterprises can be converted to a business and some cannot. It depends on several factors such as: industry; licensing and bonding requirements; relationships with customers, clients, and vendors; willingness of the owner to establish, document, and commit to necessary infrastructures; and the mind-set of the owner. Mind-set of the owner is usually the single most important determinant of the successful conversion from a self-employed enterprise to a bona-fide business. If your goal is to maximize current income and personal lifestyle, rather than to create personal wealth, then you might not be a candidate to be a business owner. An aversion to procedures and dislike for creating and maintaining systems are other indications that you might be happier being self-employed. However, many entities can be transformed into bona-fide businesses, if the owner is willing to change his or her thinking.

### **How to Turn a Self-Employed Enterprise into a Business**

Start thinking like a business owner and take action. This might be the single most challenging step.

Here are some basic steps to take:

- Set up and document systems so the business can run without you
- Implement strategies to protect your business
- Separate yourself from your competitors by identifying what you do especially well
- Develop a growth strategy and offer a short list of profitable products or services
- Focus your marketing on your process, and not on you
- Hire experienced salespeople and establish a sales management system
- Streamline your process to maximize efficiency
- Keep impeccable financial records so you can spot a problem and deal with it quickly

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- Hire the best professional advisors that fit your budget
- Set a financial goal and stick with your commitment to exit when you reach it

### **What if You Choose to Remain or are Destined to Remain Self-Employed**

If you remain self-employed, find another way to provide for financial security when you are no longer employed. Maybe you plan to work forever, but you might not always have the luxury of working for a few reasons:

- Changing technology or the economy could put you out of business
- Death or disability might spell the end of your ability to work
- You might have to abandon your business to care for a loved one
- Vendors, suppliers, customers, or clients might choose to terminate a relationship with you
- An irreplaceable key person or employee might leave

Create wealth, preferably liquid wealth, outside your business. A diversified portfolio of investments in a broad group of asset classes can help you capture upside potential and minimize risk. Get professional help. Interview two or three credentialed personal financial advisors, such as a CFP™ or ChFC, and select one who has the experience, preferably five plus years, to advise you about tax-efficient strategies and the correct investment mix. Meet with that advisor every six to twelve months to update your position. He or she will help you set realistic long term-goals and will develop a plan for you to invest on a regular basis. It will be up to you to avoid the temptation to buy goodies with earnings that should be invested. Do not delude yourself into thinking that they are investments. Real estate, airplanes, boats, and collectibles (such as cars, jewelry art, coins, and antiques) fall into this category. An “investment” that carries an emotional attachment is not an investment.

### **Sale to Your Employees or Family Might be a Possibility**

There is a possibility that you could sell your self-employed enterprise to your employees or family. However, they almost never have sufficient collateral to obtain a bank loan. That means you will have to finance the sale. If you have accumulated sufficient wealth outside your business to provide for your financial security after you leave the business then this plan might work. But, don't count on the payments from them to support you. If the business hits a rough patch, they might have to suspend payments to you, or, you might have to return to run the business to get it back on track. Unless this appeals to you, be sure to set yourself up so you aren't in a position where your employees or family are your only potential buyers.

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### Whether Self-Employed or Business Owner Make a Plan

No matter which category you are in, you need to make a plan to someday leave your business. Meet with an exit planner who has no agenda about your course of action. Determine which category you are in and develop a plan to achieve the post-exit lifestyle you desire.

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**Joan M. Ridley** is president of Business Wealth Solutions, a Dallas based advisory firm that consults with business owners about how to successfully grow and harvest their business wealth. Please visit our website at [www.businesswealthsolutions.net](http://www.businesswealthsolutions.net). Call us today at **214.692.9192** for a complimentary meeting to learn how we can help you. Ask for our complimentary brochure.

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