Financial Planning for Small Business Owners

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There are many different kinds of small business owners in all stages of their business. Some have just started putting their ideas into action in a startup, while others are in the growth stage or even planning an exit strategy.

No matter which stage your business is in and whether you're a dreamer or more of a pragmatist, there is one thing you can't afford not to do. You need a holistic financial plan that takes into account where your business is now and what the plan is for the future.

For small business owners, establishing a financial plan comes with an added complexity, which is the business. In some ways, the business and personal sides of your financial plan will be mutually exclusive.

Separate your personal financial goals from your business goals

Before making any plans, it's critical to understand that you are not your business. Most small business owners have goals for their business, but it's important to also make financial goals for yourself and to keep them separate.

It can be tempting to combine the two, especially for sole proprietors or single-member LLC owners whose business is included on their individual income tax return. However, by not separating your business from your personal financial goals, you could be missing out on some amazing personal achievements.

For example, some personal financial goals might include setting up and contributing to an education fund for your child, boosting your retirement savings, funding and going on a vacation, and buying your first home or downsizing when your children move out of the house.

On the other hand, some financial goals for your business might include increasing sales to a particular amount, finding more customers, or establishing a certain percentage of growth rate.

Consider alternative funding options to diversify your business-related risk

You may also want to look at other places where you can further separate yourself personally from your business. The easiest place to look is at the many available funding options for your business.

Most small business owners invest in their own businesses using their own money and time, which may be appropriate in certain situations. However, just as you would diversify your investment portfolio, so you may also want to diversify your business-related risks.

Using your own capital, or, in a worst-case scenario, your own credit cards, places you at significant personal financial risk if something happens to the business. In some cases, though, it might make sense to cede some of that risk to another party. After all, today's digital world has brought a wider array of potential funding options that range from venture capital and private equity to crowdfunding, business loans, and even more creative options like a small business incubator or accelerator.

The Small Business Administration is also an excellent resource for business owners, not only for information and guidance but also, in some cases, for low-interest business loans.

Remember to plan for retirement

For small business owners, retirement planning actually sits at the crossroads between personal and business financial planning. It can be tempting to just keep pouring your money back into the business, but that can make it difficult, if not impossible, to save for retirement.

Many small business owners don't save for retirement because they believe they'll be able to sell their business and live off the proceeds of the sale in retirement. However, most overestimate what their business might be worth, especially when looking decades into the future.

Simplified Employee Pension (SEP) IRAs and individual 401(k)s both enable small business owners to plan ahead for the days when they finally retire.

Diversify everywhere

Another important thing small business owners should remember when creating their personal financial plans for themselves and their business is diversification. A small business is a piece of a larger investment portfolio, but many business owners don't recognize this.

Being in business represents a significant risk, even if it seems like you're in a safe industry. As a result, it makes sense for small business owners to target low-risk investments for the rest of their investment portfolio.

Prepare your exit strategies

Finally, small business owners should prepare their exit strategies — for both their personal legacy and their business. From a personal perspective, business owners can't afford not to have a will and estate plan to ensure the business doesn't fold upon their death. Many also want to leave their business to the next generation, but without a will, ownership succession becomes hazy.

In terms of the business, you should also create a succession plan designating who will take over when you retire or pass. The financial reasons for creating a succession plan are similar to those for creating a will and estate plan, although these plans differ from a practical standpoint. In terms of your personal financial plan, you're designating heirs, while for your business financial plan, you're designating the next CEO or manager. They could be the same person or different people, depending on your situation.

Don't be too busy to plan

These guidelines are only the very basics of what a small business owner needs to consider when creating a financial plan. Some other factors that may play a role in your personal and business financial plans include insurance (property, professional, and otherwise), preparations for growth, planning for disability, and more. No two financial plans are the same, and these other factors may fall under some of the earlier headings.

Unfortunately, many small business owners find themselves tapped out when it comes to financial planning. It takes so much energy and enthusiasm to keep the business going that they sacrifice their personal financial wellbeing. However, your busiest times will be when you need these financial plans the most, and having separate personal and business financial plans will make everything much easier.

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