# octane

The Entrepreneurs' Organization Magazine

## BUSINESS BY THE NUMB€R$

EO | Entrepreneurs' Organization

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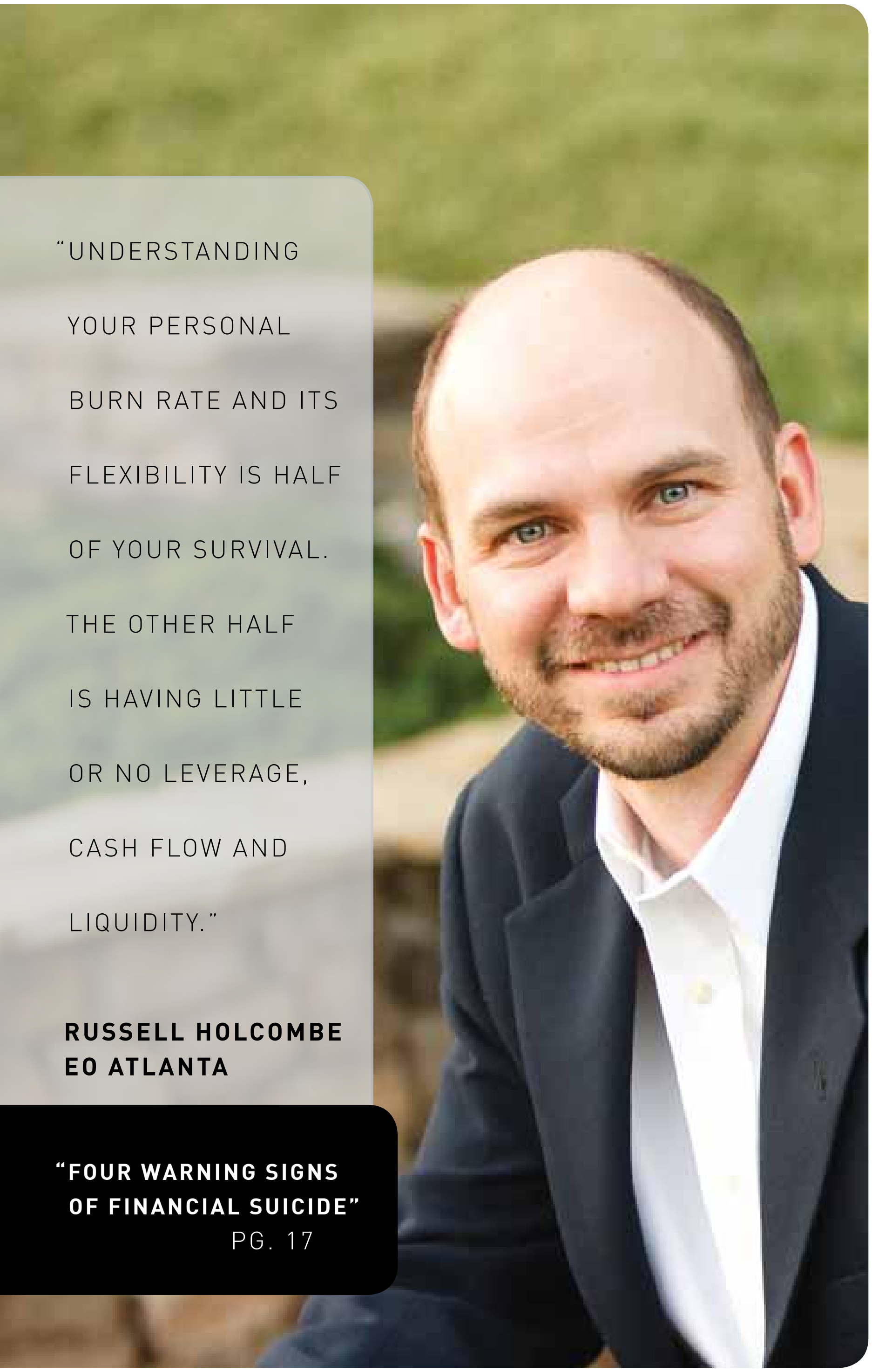

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*fueling the entrepreneurial engine*




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# SPREAD THE WEALTH OF KNOWLEDGE

I am passionate about experience-sharing and EO's use of this powerful learning tool. It is as much an organizational core value as it is an EO way of life! We promote it in Forums, leverage it at global events, push it in publications and use it as a tool in executive-education offerings. As an entrepreneur, your experiences serve as critical stepping stones for personal and professional growth, for you and your EO peers. Your experiences create the growth you need, serve as lifesavers when times get tough, and are your gift to the EO membership. That gift is needed now more than ever.

In recent years, the global economy has served as a bleak backdrop to business. In most corners of the world, sales have plummeted due to increasingly conservative spending habits, companies have been forced to restructure operating costs and liberal banking procedures have nearly become extinct. The economy is in a stranglehold, but entrepreneurs continue to push forward mightily, enduring the chaos by leaning on their peers. Why? Because they know that through unity and the transference of knowledge, solutions emerge. Traversing today's financial frontier is an arduous journey, but one made easier thanks to the continued support and guidance this organization, and its members, offer.

Today, more members than ever are relying on EO to provide them with the guidance they need to achieve stability. As a member-led organization, we understand what you're going through. As such, we're taking steps to strengthen your EO experience by providing the learning, peer-group and take-home value needed to lessen the burden of economic woes. We're able to do this thanks to the success we've achieved this year. Since Q1, we've past our member-retention goals; contributed to our monetary reserves; and sustained a measurable budget, all while launching new technologies, educational programs and peer-focused support groups.

At the beginning of the fiscal year, one of my biggest goals was to maintain our superb trend of financial responsibility. By sticking to—and updating when necessary—our five-year plan, setting new goals that would maximize member benefits, and attracting key partners, we have built a stronger, more unified organization supported by member engagement. No matter the state of the economy, EO members will always look to one another for support, inspiration and guidance when it comes to their pursuit of sustainable and better business. That's what makes EO so special. That's what makes us the world's leading community of entrepreneurs.

As you work to ensure your continued success, I encourage you to share your stories and spread the wealth of learning throughout the membership. Good luck on your journey, financial and otherwise. United, we are making progress!

Respectfully,

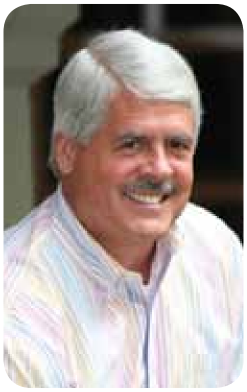
**MATTHEW K. STEWART**
EO GLOBAL CHAIRMAN

## 2010 EO GLOBAL POLICY SUMMIT

Learn how you can help grow the global economy— attend the **2010 EO Global Policy Summit** and interact with top US political leaders for an unfiltered dialogue regarding the symbiotic relationship between entrepreneurism and policy makers. Make a difference by marking your calendars for this **unprecedented** leadership experience.

**FAST FACTS**
**Dates:** 17-20 October 2010
**Destination:** Washington, D.C., USA
**Web site:** http://events.eonetwork.org
Registration opens 16 June 2010.

# THE VALUE OF **BETTER BUSINESS**



Finance— it's the foundation on which most of our business decisions are based. It's also the single most powerful thing that can propel a company toward success or push it over its tipping point. Your everyday decisions impact your bottom line, bank account and the financial future of your company, clients and communities. Employing sound financial management is integral to the effective operation of every business, and financial activities facilitate the essential management steps of planning, executing, controlling and evaluating. Concurrently—and more importantly—your customers expect good value for the dollars they spend.

In an ideal world, value is what greases the wheels of business. After all, it is one of the most important reasons why you've elected to join this organization. A close-knit community of entrepreneurs at your beck and call, the powerful intimacy of the Forum experience, events in exotic locations, access to renowned business programs—there's value everywhere you look. Your member dues help make that happen by letting us maintain the supporting infrastructure and provide offerings that help you exceed your potential as entrepreneurs.

I've seen how far your dues go and the direct impact EO has on members' lives. Like you, I've discovered avenues of better business, engaged new cultures, learned from industry leaders and formed life-long relationships. I've also learned that true wealth is not measured monetarily. Rather, it's the value of an idea, the value of a friendship and the value of a caring response … in your Forum, in your chapter, in your region and around the world. That's the type of priceless experience EO offers, and the members in this issue can attest to the importance of such return on investment.

In this issue, members from all backgrounds speak to the importance of finance and value. They cover topics germane to any business or industry, including how to secure debt financing; the importance of board transparency; how to prevent financial fraud; and tips for successful acquisitions. These in-depth articles are written by members who've experienced the ups and downs of finance, and business experts who speak about its fundamentals for a living. Each story addresses keys to proper financial management, and reminds us that no matter how tough things may seem, we're not alone.

I hope the lessons herein set you up for a brighter and more profitable future. I also hope you get to experience all of the benefits EO extends to you on a regular basis. Because when it comes down to it, true value really is priceless.

Regards,

Bob

**BOB STRADE**
EO EXECUTIVE DIRECTOR

# EO UPDATES

## 2010 EO ALL-MEMBER SURVEY RESULTS

The EO All-Member Survey continues to serve as a successful indicator of member satisfaction with EO. In this year's survey, 48 percent of the membership (3,317 respondents) made their voices heard. That's three percent (277 members) greater than last year! This is an incredible figure, and one that speaks volumes regarding your commitment to improve the organization. To view top-line results from the 2010 survey, visit **http://resources.eonetwork.org/administration/Pages/AllMemberSurvey.aspx**.

## NEW EO PARTNERSHIPS

EO is proud to announce its newest partnership with Sixt, one of the world's leading mobility service providers, and British Airways, a prominent airline. Sixt is available at more than 4,000 cities in 100 countries. As an EO member, you receive Gold Status, exclusive discounts on car rentals and limousine services, roadside assistance, mobile check-in and more! As a Regional Partner, members have the opportunity to enroll in British Airways' Executive Club Program and receive elite "Silver" status, as well as a 15-percent discount on published airfare to any destination served by British Airways. For partnership details, visit **http://resources.eonetwork.org/partners**.

## 2010 EO CALIFORNIA UNIVERSITY

On 7-11 April in Dana Point, California, USA, EO held the 2010 EO California University, which brought more than 120 members together for learning and fun under the sun. Set against a backdrop of sprawling beaches, the University afforded members a chance to connect with industry leaders like Sir Richard Branson and Guy Kawasaki; explore the inner workings of renowned businesses like Disney and Oakley; network with peers during a beach bonanza; and participate in an enlightening social entrepreneurship panel. A big thank you goes out to EO Orange County and the University committee for hosting a memorable event!

## 2010 GLOBAL LEADERSHIP CONFERENCES

Incoming chapter leaders honed their leadership skills during this year's Global Leadership Conferences (GLC). The annual events—held in New Orleans, Louisiana, USA, from 6-8 May, and in Hong Kong, China, from 20-22 May—were a big hit! Newly appointed officers exchanged ideas and strategies on how to best lead their chapters, participated in networking sessions and learned the leadership ropes from Global peers and staff. The premise behind GLC: New Orleans and GLC: Hong Kong was "Building the Better Entrepreneur," the organization's theme for FY2010/2011. Thanks for your support, GLC leaders!

# OUT OF SIGHT, OUT OF MIND

**JANET PATERSON**
EO UK–LONDON

When you first start a business, it's not uncommon to ensure that the board you appoint consists of your friends or people you've worked with before. Years ago, I worked for a service company that, while fairly small, was quite profitable. This company's board boasted all-star members selected for their prior experience and general commercial acumen.

Being a small business, the company's finance director (FD) was in a position of significant trust. The FD had complete control of the accounts-preparation process and the presentation of said accounts to the board. Looking back, it's easy to see how having only one "owner" of the company's finances could cause some issues. However, because the company was undersized, it was difficult to involve enough people in the finance department to have the segregation of duties that one would normally expect to find. We simply had to make do.

As the months went by, the company didn't realise the considerable strain the FD was under. Before we knew it, we were getting reminders of late-paid invoices and late-filing penalties from the HM Revenue & Customs (HMRC). We questioned the FD about the late payments, and he said that they were a result of the suppliers not processing the cheques properly, or that HMRC's records must not be updated. The board would take this at face value; after all, everyone was very busy and the FD was a well-qualified individual who should have been perfectly capable of fulfilling his role.

As they say, hindsight is always 20-20. In retrospect, these penalties and filing reminders should have indicated that all was not well. Unfortunately, the company had no real system for controlling internal finances, and the small problems could be easily explained. That is, until we saw the bigger picture. Eventually, the FD resigned due to supposed personal problems at home. When a new FD came on board, his discoveries were shocking, to say the least.

There was a reason why the company was doing so well— its creditors were vastly understated! The financial accounts maintained by the former FD contained a maze of journals and opposing entries. There was also a vast suspense account that took months to unravel. Hidden in this suspense account were journals that masked salient issues, like our pay-as-you-earn (PAYE) payments being terrifically late and, believe it or not, our rent not being paid. Fortunately, the company was strong enough to survive, and the board learned from their heinous mistakes by putting appropriate procedures in place to prevent future financial crises. These procedures included:

» **Redefining the roles.** They established better-defined roles between the individuals that processed accounting entries and the individuals that produced them.

» **Establishing sign-off processes.** To maintain proper financial visibility, they made a rule that all accounting entries had to be signed off by two parties— the FD and another director.

» **Eliminating potential problems.** They completely banned the use of the suspense account, which eliminated the potential for future financial problems.

» **Adopting routine audits.** To side-step potential disasters, they made sure all accounts are subject to a proper audit (in this case, the company was below the audit threshold, so one was not previously undertaken).

» **Increasing access to technology.** The company trained non-financial directors on the accounting software, so that they would know how to use the software and drill down into peculiar transactions if needed.

» **Sticking to the numbers.** All of the directors agreed to create more meticulous budgets with the FD, against which any variances could be analysed in more detail.

In the end, the company realised that being out of sight, out of mind—especially when it came to their finances—was not the safest or smartest route to take. What's more, they made it a point to establish a more open, honest sense of communication between staff and management to ensure no one gets overloaded by work. Overall, this near-financial meltdown taught everyone the importance of proper financial management, and that kind of knowledge is priceless.

Janet is the CEO and founder of the UK-based tax consulting firm Charter Tax Consulting, Ltd. Charter Tax is a boutique tax and financial planning firm specialising in international projects. E-mail Janet at **janet.paterson@charter-tax.com**.

IMAGE PROVIDED BY IMAGESOURCE

# THE ART OF THE ACQUISITION

**ADAM STITES**
EO PORTLAND

In early 2008, after 13 years of organically growing our Internet company, I decided to learn everything I could about buying a business. Later that year, we acquired two companies that met our criteria.

## Purchasing on the Cheap

The first acquisition was a direct competitor. We heard through the industry grapevine that this competitor was having trouble. I looked up the company's lien filing to determine who their bank was. I then contacted the special assets division of the bank and negotiated an agreement to purchase the bank's lien position. The bank agreed to assign their lien position (which secured more than US$700,000 in debt) to us, provided that we pay a US$15,000 success fee if we were able to obtain the assets from the competitor.

I now had a legal right to the business. What I expected to be a quick procedure, however, involved six months of legal process and fees. With the help of our attorney, we eventually foreclosed upon the assets and took over a Web site that was once doing US$10 million a year in sales for only US$25,000 in legal fees. The acquisition fit easily into our business and provided a return on our investment in less than six months.

## Buying into Debt

Our second acquisition was in a completely unrelated industry. This company sold gifts and training aids to firefighters. While there was no apparent synergy in terms of customer overlap, operationally the business was identical to ours. So, we put together pro forma income statements and balance sheets as if the business to be acquired was operating as a subsidiary of our company.

This 28-year-old company had lost hundreds of thousands of dollars over the past several years, but we forecast the ability to quickly turn that loss into a profit. The only problem was that the business also had a fully drawn bank line of credit that vastly exceeded the book value of its assets. As with the other business we acquired, the bank held a UCC filing against all tangible and intangible assets. After much discussion, we were able to negotiate a price with the seller that was ultimately approved by the bank for much less than what was owed on the line of credit. I believe the bank saw an opportunity to get half of what they were owed, as opposed to getting nothing in a bankruptcy procedure.

## Here are the top five lessons we learned from these acquisitions:

1. **UNDERSTAND** why you are pursuing a growth strategy through acquisition. We had become very good Internet retailers, but we were in a declining industry. Buying other businesses gave us the ability to apply our skills in different markets with room for growth.

2. **KNOW** what you are seeking. Without written acquisition criteria, I could have easily lost focus among the thousands of listings, and on the type of business I was looking to buy.

3. **LISTEN** to the grapevine. I learned who was struggling in our industry by speaking to our vendors. They tipped us off to the struggling competitor we bought from the bank.

4. **BALANCE** risk with opportunity. By comparing the forecast earnings of an acquisition—operating as a subsidiary of our company—against the total debt service used to finance the transaction, I determined the amount of risk (expressed in the debt-service coverage ratio) and the reward (expressed in the earnings before interest, taxes, depreciation and amortization [EBITDA]).

5. **ANTICIPATE** that the best financial forecasts will be wrong. While I knew our operating costs and could apply those to the new business units we were acquiring, there were still unexpected costs and problems. Though I couldn't eliminate these risks, I was able to mitigate them by making reductions to the seller's holdback financing.

In the end, I learned that by using our existing facility, staff and expertise, we could purchase existing Internet-retail businesses to dramatically increase our profits. Also, our acquisition strategy is complementary to our organic growth strategy, which let us apply improvements from one business unit to another. The result is that we now have a proven, two-pronged approach to growth. More importantly, I've learned valuable financial lessons that will set us up for continued success.

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Adam (pictured) is the president and founder of iStores, Inc., which owns and operates multiple Internet-retail Web sites. iStores acquisition criteria are US-based online retailers with annual revenue of at least US$2 million. E-mail Adam at **adam@istoresinc.com**.

# CYBER-CRIME:
# DON'T BE A VICTIM

**RODNEY JOFFE**
EO ARIZONA

As a cyber-security expert, I know how fragile a company's finances can be when left unprotected. Over the past few months, I've been involved in an international task force dealing with a specific cyber-crime that should be of major concern to all EO members: bank wire and automated clearing house (ACH) fraud. In fact, some of you have already fallen victim to this offense, including one member whose company was defrauded to the tune of more than US$300,000.

The particular cyber-crime I'm referencing involves wire transfers and ACH processes— basically, the network that allows funds to move between banks. The criminals I speak of are international financial terrorists who prey on uneducated business owners. By spreading some very sophisticated and difficult-to-detect software, and taking advantage of the third-party clearing processes, these terrorists stole directly from small businesses to the tune of US$100 million last year … and that was just one criminal gang!

It's an epidemic, it's global in scope, and I want to make sure that no other EO members join the ranks of these victims. The initial weakness occurs when someone in your organization gets a carefully crafted e-mail addressed to a senior executive (perhaps you), which triggers a reaction. I have received e-mails like these claiming to be from the local Better Business Bureau, mentioning a negative report or something of that sort. I've also received disguised e-mails that are addressed to me, some of which came from our bank (our *actual* bank); they mention the names of my CFO and controller, referring to a significant chargeback. Spooky.

Believe it or not, these criminals do their homework. I'm not talking about the broadly spread, fake bank e-mails you receive daily. These cyber-terrorists actually research your Web site, search for executive's names, look at your press release page, identify events and refer to them in their messaging. A surprising number of executives click on the attachments or links … and the damage is done. The compromised system looks for other local machines, and because your system is behind your corporate firewall, which is now of no value, it attempts to exploit them through well-known vulnerabilities.

Eventually, the criminals end up infecting the controller's or accountant's computer. Once that occurs, they monitor traffic, log connections to your bank and capture your log-in credentials. At that point, you're done for. Just before your bank's closing time, the criminals log in to your account and set up a series of wire transfers.

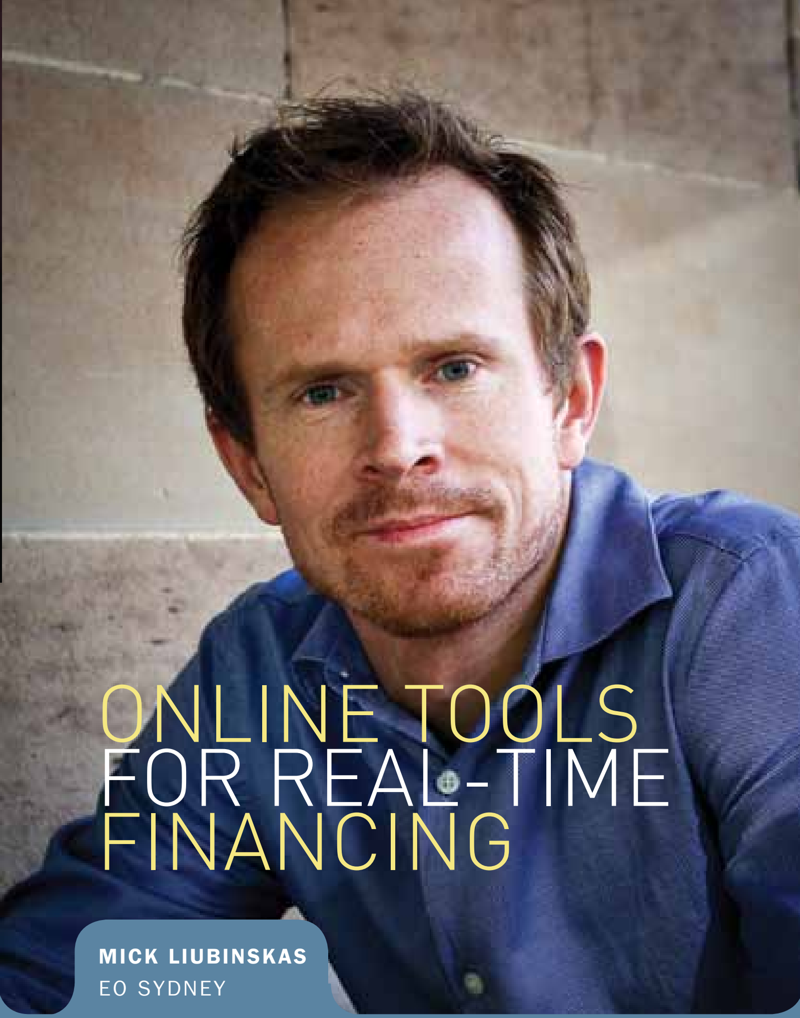
By the time you get to work the next morning, your account is empty. Now you're left struggling to figure out what happened, and how to get your funds back. Sometimes you catch a lucky break, but more often than not you lose everything.

To defend your company's assets, here are some immediate actions you can take while you develop a more sustainable, long-term plan:

1. **Separate banking tasks.** Buy a cheap laptop and dedicate it to banking alone. Don't use it for e-mail, and never browse the Internet. Log on to your bank, do your banking, log off, disconnect it from the Internet and power it off.
2. **Establish secure confirmations.** Ask your bank to implement a positive mechanism, which ensures that unless a wire transfer is pre-notified to them, they must call you for voice confirmation. In the US, this is known as "positive pay."
3. **Safeguard the Internet.** Establish strict rules for employees regarding their use of the Internet. Show them some of the real-world stories about cyber-terrorism and how it can affect their employment.
4. **Keep your information safe.** Internet hygiene goes a long way in keeping your information safe. Keep anti-virus programs and patches up to date, and never click on attachments or links in e-mails you don't absolutely trust.

Keeping your finances in check and your company's important information under lock and key isn't as hard as it seems. A few simple steps like those listed above can go a long way in ensuring you never experience the heartbreak of bankruptcy as a result of online vulnerabilities. In the end, the best way to stave off cyber-terrorism is to be armed with the right information and put in place processes that keep you and your company safe.

Rodney is a serial entrepreneur who has founded and sold a number of prominent companies, most notably Genuity, one of the largest Internet service providers. He is also a leading global authority on cyber-terrorism. Rodney is currently the senior vice president and senior technologist at Neustar, a telecommunications provider. E-mail him at **rjoffe@centergate.com**.



# ONLINE TOOLS FOR REAL-TIME FINANCING

**MICK LIUBINSKAS**
EO SYDNEY

Your ability to collaborate with the right people, get good information and make the right decisions may determine if you're thriving or surviving in business. Tapping away on a financial spreadsheet late at night and then e-mailing it around for feedback is 15 years too slow. Online, real-time collaboration is here, it's powerful and it's a tool you should use.

As entrepreneurs, we're familiar with the benefits of spreadsheets. Using formulas, we can create simple or complex financial analysis and reporting tools that are customised to each situation, not to mention track expenditures as we build our businesses. Online spreadsheets add new levels of value. An online spreadsheet is a document edited through a Web-based application that allows multiple persons to edit and share it simultaneously. Instead of having your financial information in a single file on one person's computer, the file is now a single, live document living on the Internet.

Here's how it works: You create the spreadsheet using online software like Zoho, Skydrive or Sheetster, and then invite your collaborators to participate via e-mail. Now both of you can view and edit that spreadsheet. As you work, you will see the other person's cursor move around the page. If one of you updates a cell, it updates the entire spreadsheet. Here are some more perks:

## Real-Time Collaboration

If you require input from multiple people, then online spreadsheets can save you on time and mistakes. Instead of each person making their own version and trying to merge or compare them, everyone can work from the same master document at the same time.

## Transparency

Online spreadsheets are a great way to encourage transparency when working with another company on a deal. We put the information into a private, but shared, online document, and then both parties can look at the same information at once. The fear of "hidden" content is squashed.

## One Source of Truth

One of the biggest challenges with old-school spreadsheets is version control. You can easily end up with files called, "Annual Budget – final – version 3," and still not know if it's the right one. You don't have that problem with online spreadsheets— there is only one file.

## Forms

One of the cool features some online spreadsheets offer is the ability to use forms to generate spreadsheets. Basically, you create a simple form, and then you get a Web address you can use to invite people to complete the form. The information goes automatically into an online spreadsheet. It's simple and powerful.

Online spreadsheets are incredibly beneficial for all entrepreneurs, but there are some things you should consider before using them:

### Structure

You need to think about what you're going to use the spreadsheet for, who will see it and how it might evolve. It's no longer that private napkin you use to collect your thoughts— it's in public view. This may require standardizing how a company uses the spreadsheets.

### Security

People typically worry that having information available for all to read online is risky. Most good online tools, however, have private, public and secret options. Like all things, if managed well, the risks are low.

### Lost Functionality and Speed

I'll be the first to admit that you do lose some functionality by going online. If you've lived in Microsoft Excel for 20 years like I have, then you can make it purr how you want. All of the formulas, big files, adjusting zoom sizes and formatting are limited online. It's a trade off, but well worth it.

### Cost

Most of these applications are free to try, and some have an annual subscription fee based on how many users and how much data you have. These fees typically range from US$30-50 per user, per year. Compared to normal spreadsheet software, it can be extremely cost-effective.

With the advent of new technology, it has become significantly easier for entrepreneurs to stay on top of their finances. While there are some advantages to sticking with the more traditional tools, I've found that online spreadsheets save me plenty of time, money and stress. As a busy entrepreneur, I couldn't ask for anything more.

Mick (pictured) is the co-founder of Pollenizer, an Australian-based firm that has helped build more than 50 startup Web businesses. Mick was the head of marketing for Kazaa, Zapr and Tangler, and is wildly passionate about focus. E-mail him at **mick@pollenizer.com**.

# INSIDE THE MINDS OF CREDIT MANAGERS

## SIX STEPS TO SECURING DEBT FINANCING

**DEAN SHILLINGTON**
EO VANCOUVER

This won't be news to entrepreneurs, but the lending world has changed. Eighteen months into a weak global economy, virtually everyone's financial statements are causing heartburn at local financial institutions. What does this mean for your business? The job of securing debt to operate and expand your business just became much more difficult. However, hope exists.

Thankfully, there is still plenty of bank cash available. It's just harder to get. Beyond the obvious ratios, I can tell you that there has never been a more important time to think strategically before you walk into your bank requesting a business loan. As a former credit manager with one of the major international lenders, I know from experience how invaluable it is to give your business a long, hard look early on, so that you can address what those credit people will be only too eager to point out.

Consider the following six points before approaching your bank, and you will have a decent chance of obtaining that much-sought-after cash:

## 1. FORECAST YOUR FINANCES

While your financial statements illustrate how you have done historically, one of the first things that will be asked of you is how you will do this year and next year. Forecasting used to be a "nice to have" item as a credit manager, but the shifting of power has made it a pre-requisite to getting approved. Keep it simple, and most importantly, realistic. Remember the "Three Cs": clear, concise and conservative planning. Try not to make the mistake I see many entrepreneurs make: not knowing if you can afford the debt for the income you are forecasting.

## 2. CASH (FLOW) IS KING

Think positive working capital, ability to service your long-term debt, contingency planning for slowdowns, shareholder disputes and expensive settlements from lawsuits. These are all of the immediate thoughts going through a credit manager's mind regarding your company. This is the single most important ratio that is addressed in the application, so you need to be prepared. The rule of thumb: Make sure you can cover 1.25x (or greater) of the debt payments you need to make in the next 12 months, based on last year's income. If not, your forecasting just became even more important.

## 3. CLEAN THE SKELETONS OFF THE BALANCE SHEETS

While newer accounting guidelines have limited the age-old tradition of maintaining intangible assets, many companies still have random skeletons lurking on their financial statements that scare credit departments. If you are one of those companies carrying legacy bad debts, overstated inventories or long and drawn-out contingent liabilities, do yourself a favour and write them off during this downturn. It's much easier to explain losses in a downturn, because you can already assume that the credit managers are scrutinizing those skeletons in the most negative way. You don't want a lender to later discover that an asset they thought was on your balance sheet really isn't there. Being on the receiving end, it won't end well for the entrepreneur. A cleaner balance sheet is a more trustworthy balance sheet.

## 4. PREPARE EXIT STRATEGIES

No deal gets approved at a financial institution without that decision-maker thinking first and foremost how he or she is going to exit the file whole if things go wrong in a big way. Think fire, earthquakes, floods, locusts, apocalypse ... you name it. It's critical that the individual reviewing your deal knows exactly what the avenues are for recovering their coveted funds. Nobody knows your business better than you do, so help creditors out by offering creative suggestions on how you can recover high values in a short period of time. While it may seem unusual to give the potential grim reaper ideas on creative and speedy ways to rid themselves of your file, your odds of getting that loan in the beginning increase exponentially if that credit department is comfortable with their exit strategy.

## 5. AVOID LAWSUITS AND COLLECTIONS

This is one of those giant red flags that credit managers seek out. Collection issues, obviously, are usually an indicator of how the lender's loan is going to be repaid. Lawsuits also carry the same red flag, because the credit department believes that where there is a tendency to sue, or be sued, there is a tendency to not respect creditor relationships. That said, if you do fall into this category, it is a good idea to have some great explanations prepared detailing why you fell into that unfortunate situation to begin with. Being proactive is key.

## 6. ILLUSTRATE COMPETENT MANAGEMENT AND SELL/CONTROL THE STORY

This is the backbone of the credit write-up, and it is completely based on the interpretation of the relationship manager at your chosen lender's office. A good trick I have found to be successful is providing your lender with a one- or two-page summary on the background of your company and management, key successes, key failures, learning experiences, milestones, projects and goals, while always being honest and sincere. These important selling features will 99 times out of 100 end up on the internal credit application verbatim.

When it comes to your banking relationship, you're probably going to deal with a credit manager who is either far too young to have any practical business experience, or is in the twilight years of their career who won't lose any sleep about your business not closing the deal. Like rare gems, there are exceptional relationship managers, too, but either way, these are the individuals preparing the credit write-up and representing you in front of their credit team. One can't expect these people to put your business's best foot forward. So, put your banker hat on, be proactive by using the above suggestions and help do their job for them.

Finally, while times may be tough, take solace in the knowledge that creditors do realize they won't make any money without lending it. As the old English proverb goes, "Money, like manure, does no good until it is spread."

Dean (pictured at left) is the president and founder of the Canadian-based financing and consulting firm, Knightsbridge Capital Group. Knightsbridge assists clients worldwide in seeking "best fit" financing for their businesses. E-mail Dean at **dean@kbcapital.ca**.

# REGAIN YOUR **FINANCIAL FOOTING**

**ANDREW MILIA**
EO DETROIT

It's true that the global economic crisis affects us all. Be it mortgage debt, lines of credit or other asset-based lending, the resultant credit crisis is paralyzing businesses of all types. The number one problem facing most entrepreneurs is credit. As a real estate development and consulting firm, we work with companies to restructure and negotiate their credit facilities. Here are some tenets we suggest they follow to ensure they regain their financial footing:

## Get in Front of the Problem

Many entrepreneurs operate under the premise of "don't wake a sleeping dog." The hope is that by not contacting their lender in advance of an expiring credit facility, the loan would automatically be extended. In the past, business owners could merely execute a loan extension a few days in advance of its expiration. Most owners are shocked that their once-friendly, long-term banking relationships have become tenuous and their "automatic" extensions are no longer automatic. It's not unusual for extension negotiations to become all-out battles, with borrowers ending up on the losing side with lower credit limits, increased fees and higher interest rates. Successful borrowers get in front of the negotiations to proactively manage their banking relationships.

## Don't Be in Denial

Many entrepreneurs hope that business conditions will right themselves in the near future. This thinking leads to accepting short-term financial Band-Aids as treatment for long-term credit problems. Today, the "extend and pretend" method has been adopted by both banker and borrower alike. The strategy is ill advised, because it is based on the hope that the systemic problem will correct itself or that other financing sources will become available in the near future. As opposed to relying on "hope," we advise clients to implement multi-staged solutions, which contemplate longer-term, business-recovery strategies. While banks have been focusing on short extensions to keep the "credit leash" tight, we have found that tackling all of the "what if" scenarios is critical. Incorporating benchmarks or milestones in loan workouts help borrowers avoid continual negotiations for the same loan.

## Have a Plan

Borrowers often wonder why it takes so long to get an existing loan issue worked out when bankers aren't making new loans and have "nothing else to do." The truth is that bankers are busier than ever just managing their existing loan portfolios, handling workouts, reporting to their credit officers and complying with more stringent regulatory conditions. We instruct our clients to turn this gridlock into an opportunity. For example, they can proactively design a plan for a loan workout or extension instead of waiting for the lender to be the aggressor. A bad loan is just as big a problem for the bank as it is for the borrower. To the extent that the borrower can create a solution that solves the lender's problem, the borrower has a better chance of being successful in achieving his or her own goals.

## Communication is Key

While you may have hated going through the loan process in years past, credit negotiations are now more contentious than ever. This adversarial atmosphere often leads to less and less communication when greater communication is actually required. Borrowers must be willing to deal with the situation. Avoid the temptation of putting your head in the sand. Not returning a banker's phone call leads to greater uncertainty and a breakdown in trust. Our firm often acts as the intermediary on behalf of borrowers to negotiate and communicate with lenders. This frees up mind space borrowers can apply to the business at hand, while their intermediary effectively negotiates with the lender in a systematic, professional and unemotional approach.

While today's business challenges are considerable, implementing sound solutions can help entrepreneurs deal effectively with their credit problems. The market will regain its strength, but until that happens, the above tenets will help companies survive so that they can once again thrive.

Andrew (pictured) is president of Franklin Property Corporation, a real estate development and consulting firm. The company assists business owners with their banking and lending relationships, including the restructuring of debt. E-mail Andrew at **amilia@franklinpropertycorp.com**.

# ASSET PROTECTION FOR THE ENTREPRENEUR

**BOBBY CASEY**
EO CHARLOTTE

To us entrepreneurs, our businesses are our babies. We do everything we need to do to ensure our baby arrives safely and has a healthy existence. In many cases, however, we get so wrapped up in coddling the baby that we forget to take care of our own future.

Take asset-protection planning, for example. It should be a critical part of any entrepreneur's plans for a safe and structured existence. Yet many mistakenly believe that if they have a corporation, PLC, Ltd. or LLC, they are shielded from trouble. No matter the business type, entrepreneurs can always find themselves and their assets in jeopardy. Here are a few lessons I've learned that shed some light on asset protection:

**1. Address the personal and business sides when choosing asset-protection plans.** I recently had a client ask me to restructure his US$30 million worth of commercial real estate holdings. Each property was individually held in a US-based LLC. Through our research, we found several issues. For example, the operating agreements offered no protection, and each LLC was owned by an S-corporation operating company. The problem here is that if he is sued for any personal reason, the entire portfolio is at risk, because his S-corporation shares can be attached in a judgment. And since the S-corporation owned the LLCs, his entire portfolio was in trouble. By moving the property LLCs under a master LLC holding company, we segregated the assets away from the operating company, creating a veil of privacy with the additional layer of the holding company.

**2. Obtain proper advice on how to structure your asset holdings.** A properly structured asset-protection plan addresses the two main threats to your wealth: litigation and government intervention. Regardless of where you live in the world, these are very real concerns. The more money you have, the bigger the bulls-eye. With the global economy in crisis mode there is a heightened awareness of "wealth through litigation." Do you think this impacts your cost of doing business? If you're an entrepreneur, you're a target.

When I was a child, there was a fatal accident on a job site at my father's commercial construction company. The roofing contractor had no insurance to protect the safety of his two workers. When the roof collapsed and one of his men died, the victim's family sued for damages, leaving my father's company liable for millions of dollars. The insurance company paid the majority of the cost, but not all of it. As a result, my father's company ended up paying the employee's salary for 18 years, including cost-of-living increases for the man's newborn child. While this was certainly an unfortunate accident, the point is you never know where risks will emerge. By getting proper advice on how to structure your asset holdings today, you can prepare yourself for unexpected surprises tomorrow.

**3. Shield your wealth from unknown risks.** The other risk I mentioned is government intervention. This can take on many forms, ranging from currency controls and inflationary policies to the big one— taxation. While these risks vary by country, government risk appears in every region around the world. This is why it's important to protect your wealth and diversify your assets. Some of the tools we use for asset-protection planning include US and off-shore LLCs and IBCs, limited partnerships, hybrid and off-shore trusts, private-placement life insurance, captive insurance, and private banking and investment solutions. A simple structure that offers great asset protection may be to have your company shares owned by an off-shore LLC, which is then owned by an asset protection trust. This creates a shield of privacy and legal protection from creditors. Off-shore insurance options offer great tax advantages, while private banking and investment solutions give you opportunities for increasing your wealth.

From a financial security standpoint, it's imperative that entrepreneurs protect themselves from potential threats to their hard-earned wealth. Think of asset protection as an insurance policy— would you buy health insurance after you get sick? By addressing your business and personal needs, obtaining proper advice and setting up barriers for unexpected crises, you can sleep better knowing that everything you've worked hard to acquire is safe and sound.

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Bobby (pictured) is the founder and managing director of Global Wealth Protection LLC, an asset-protection consulting firm. GWP works exclusively with high-net-worth entrepreneurs and investors from around the world. E-mail Bobby at **bobby@globalwealthprotection.com**.

# MAKE THE BANKER YOUR BEST FRIEND

**KRISTEN HARRIS**
EO COLUMBUS

As a business owner, I've always heard it's important to build a great relationship with your banker. I never really understood what that meant until a year ago. As it turns out, the relationship with our banker was *so* good that we stopped banking with them.

At the time, we were a small-business bank customer set up with checking and savings accounts, plus a line of credit. Though we were a typical business client, our banker was far from typical. Her interest in our company and desire to help us succeed quickly made her a trusted advisor. No matter the situation, we always felt like she was acting in our best interest, as well as the best interest of the bank. It was a true win-win relationship!

And yet, like a lot of things in the financial sector, everything changed in 2009. Our business had been growing exponentially since our launch in 2005, and despite the economic downturn, we were stable. In fact, we needed to prepare for business to pick up due to our expanding industry. After crunching some numbers, we identified the need for a larger credit line that would allow for continued growth. Since our credit line was up for renewal anyway, it seemed like the perfect time to talk about an increase.

After getting all of our paperwork together, we sat down with our banker, confident that we would get our credit increase and start planning for an exciting future. We took our time showing her our plans, detailing how and why we expected growth, and where the credit line fit into those plans. Feeling our request was reasonable and appropriate, she began making our case within the bank. After her pitch to the higher-ups, she returned with some surprising news … the bank was not interested in increasing our line of credit.

I was shocked! We were running a successful business that was only going to get bigger, and that growth meant more customers, which meant more money for the bank. Unfortunately, the bank felt we were growing too quickly. They wanted to see our growth level off before they'd consider increasing our credit line. Leveling off, though, was not in our business plans; we were strongly focused on continuous and increased growth. The fact that our bank was not interested in helping us grow, or even seeing us grow, did not sit well with us. Understanding this, our banker recommended we look elsewhere; she even gave us a couple of referrals. Without that open and honest relationship, we may have never known the reasons why the bank turned us down, and we certainly wouldn't have been pushed to approach other banks— most businesses don't refer you to their competition.

With our banker's guidance and support, we eventually found a new bank that was excited about our growth opportunities and interested in helping us reach our goals. When business started to pick up in late 2009, we needed that credit line more than ever. Without it, we would have probably lost a key client due to a change in their billing process; a loss I'm not sure our business could have withstood. Today, we're working hard to build the same great relationship with our new banker. Why? Because we've seen firsthand how much of a difference a relationship can make when you're planning for growth.

Kristen is the co-founder and owner of Portfolio Creative, a workforce innovation firm that was named the 326th fastest-growing company in the US by *Inc.* magazine in 2009. Portfolio Creative helps companies streamline and innovate their creative work to save time, energy and money. E-mail Kristen at **kristen@portfolioiscreative.com**.

## WHAT DID THIS BANKING EXPERIENCE TEACH ME?

### I LEARNED TO:

- » Cultivate and maintain a strong relationship with our bank contact.
- » Meet regularly with my banker and keep them updated on our business.
- » Ensure our banker is our ally, and to contact them immediately with issues or concerns.
- » Let them help us work through a problem before it becomes a crisis.
- » Look for a new banking partner if it's in the best interest of the business, no matter how hard it may be.

# BARTER:
## THE ULTIMATE EFFICIENCY TOOL

**BOB BAGGA**
EO U.A.E.

If your business has underutilized capacity or inventory, a smart bartering strategy can help drive top-line growth and increase cash flow. I am proud to have been in the barter industry for 19 years, and in this time, I've worked with thousands of businesses who have bartered to help make their companies more efficient.

Did you know that bartering is one of the oldest forms of transacting, and precedes money itself? To most businesspeople, it is an antiquated way of conducting business. To savvy business owners, it is a tool that gives them a competitive edge by driving new customers, reducing capacity and increasing cash flow, among other financial perks.

### The Benefits of Bartering

How can bartering benefit your growing business? Bartering lets companies buy what they need without having to part with their precious cash. Instead, they pay with the products and services they already have. A company that's sitting with idle capacity or inventory is taking a non-productive asset and off-setting it against a cash expense. This increases a company's efficiency. In addition, the goods being bartered carry a margin, which enhances savings. Bartering businesses also gain new customers and save finance charges on purchases.

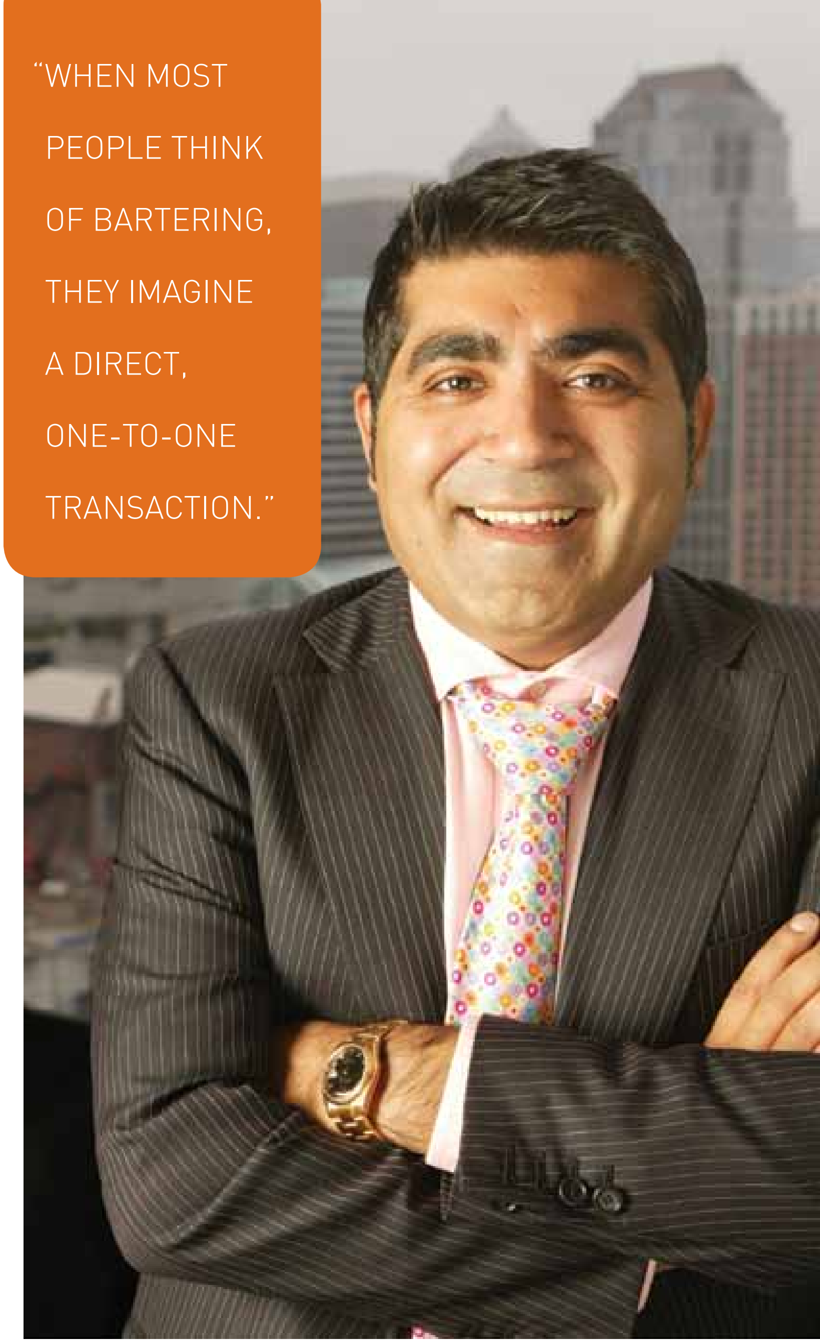
### Types of Bartering

When most people think of bartering, they imagine a direct, one-to-one transaction. This is proven to work, though it can be tricky since both the buyer and seller have to have what the other wants in the same value and at the same time. These transactions happen quite frequently in industries like media and travel, but they are not efficient or scalable. Also, the accounting can get messy, since they're difficult to record and track. Nowadays, entrepreneurs have options that not only make bartering more effective but also more efficient and with less risk.

Two of these options are organized barter exchanges and corporate trade companies, both of which have perfected the capabilities of leveraging barter within a business. These companies are incredibly valuable in that they create customized solutions to meet the needs of their clients. A corporate barter company uses "trade credits" to buy goods at a price higher than the return available through traditional liquidation channels. The business selling the goods uses these credits to off-set costs, such as advertising, freight, travel, etc. The corporate barter company will then sell the goods in approved channels or to their other barter clients.

Here's a perfect example: A luxury brand business that is sitting with US$1 million in inventory from last season uses the services of a corporate barter firm, which agrees to buy the goods with trade credits. The luxury brand then uses these credits to off-set cash outlay against their global media budget by purchasing their advertising from other clients of the barter firm. In this instance, the business greatly improves their position by moving their unutilized capacity and idle inventory through a barter company, and using the trade revenue to purchase products and services they need to grow without spending cash.

"WHEN MOST PEOPLE THINK OF BARTERING, THEY IMAGINE A DIRECT, ONE-TO-ONE TRANSACTION."



### The Power of Bartering

In some parts of the world, bartering is a necessity, as there is very little liquidity and no other way to conduct business. In developed countries, forward-thinking businesses have embraced it to further their efficiency. In fact, progressive companies like General Electric, Boeing and Time Warner have all set up in-house barter divisions. With the current economic climate, more and more business owners are embracing barter as a necessary aspect of their business. I see the growing use of barter as a trend that will continue, even when the economy is back to normal.

Bob (pictured) is the founder and CEO of BizXchange, a barter and trade exchange, and is recognized internationally for his accomplishments in the barter industry. He was previously a member of EO Toronto and EO Seattle. E-mail Bob at **bobb@bizx.com**.

# ON THE BRINK OF BANKRUPTCY

**MARK MOSES**
EO ORANGE COUNTY

As an entrepreneur, you learn new things about business every day. One of the biggest lessons I've learned is that no matter how much success I have, unplanned events can derail everything, undermining my confidence, my ability to look after my employees, and once, my ability to care for my family.

Growing up, my father owned a men's clothing store. In my last year of high school, he went bankrupt. This created huge pressures for my family— stress on my mother, lowered self-esteem for my father and insecurity for everyone. I remember thinking how I never wanted to experience that kind of crisis. As I grew up and pursued my own entrepreneurial path, I tried everything to avoid that financial fate … but it didn't work.

I started my first successful business in college. I was 19 at the time and making good money. Upon graduating, I moved to California, USA, expanded the business and eventually sold it. Soon after, I co-founded a mortgage company, which became the fastest-growing company in Los Angeles. Life was great, but then fate stepped in. In 1998, responding to a perfect storm of global financial crises, Wall Street decided not to securitize our loans anymore, and pulled out of the market. My industry collapsed and my business was over. We went from making US$1 million in net profit per month to losing US$1 million per month overnight. Within a week, I laid off 240 of my 275 employees.

Over the next few years, we suffered badly, desperately clinging to the small areas of the business that were making money. In 2000, we decided to make a last stand and re-invent ourselves. Our plan was good and it was working, but we eventually ran out of cash. We had raised more than US$1.5 million—including US$350,000 of my personal credit card debt—but it wasn't enough. We could no longer make payroll and decided that bankruptcy was our only option. I remember going home that night to my wife, who was nine-months pregnant at the time, telling her about the impending bankruptcy. We would have to make even more sacrifices, including selling our dream home and moving into an apartment. My childhood fear was coming back to haunt me.

On Tuesday, just four days before we were set to file, my business partner went to an EO event and met a speaker who had just sold his company for US$350 million. He managed to grab a few minutes with the speaker, explained our situation, gave him a copy of our plan and asked for help. Over the next few days, the speaker asked us critical questions about our company before wiring the money we so desperately needed. With mere hours on the clock, we were saved!

That Friday, we re-evaluated our circumstances and decided that while we no longer needed to file bankruptcy, we *did* need some immediate relief. Our company's net worth was negative US$2.5 million and we were US$3 million in debt. Knowing we'd lose our credit lines if we formally began the bankruptcy process, we instead decided to *act* like we were going through bankruptcy in order to negotiate with our creditors. We filled out all of the schedules and went to our creditors, telling them what it was going to take for us to survive. They agreed, and we ended up settling our debt for US$300,000. That gave us the lifeline we needed to rebuild our company.

Since then, I've grown the business even bigger than before, creating 65 offices nationwide and netting US$1.6 billion in annual volume. Still, I'll never forget those dark years of trying desperately to stay financially afloat. In that time, I realized that "cash is king," the importance of raising more cash than you need, and how growth eats cash. It's amazing that you can be profitable in business, yet still run out of money and be on the verge of bankruptcy. I also learned to never give up. There's always hope, and rescue can come from the most unexpected places. Most importantly, I learned how fleeting success can be and how to value what's truly important.

Mark is a coach, speaker and Ironman tri-athlete who uses his experience with crises to educate business leaders around the world. He has won Ernst & Young's "Entrepreneur of the Year" award and the Blue Chip Enterprise award for overcoming adversity. E-mail Mark at **mark@markmoses.net**.

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# SECRETS OF THE CFO SEARCH

## FIVE MISTAKES COMPANIES MAKE WHEN HIRING CFOS

**DEAM ROYS**
EO LOS ANGELES

In the past 10 years, my firm has recruited employees for some of the fastest-growing companies in the US, and in the process, we have found a direct correlation between the level of care spent in hiring key executives and the achievement of financial success. The position that matters most in this regard is that of the chief financial officer (CFO). Here are the five biggest mistakes we've seen companies make during the CFO recruiting and hiring process:

1. **Running ads on job boards for critical positions.** Don't get me wrong, using job boards and/or contingency recruiters is still the easiest way to find potential employees. Unfortunately, it's also the surest way of finding unemployed people who may not be the cream of the crop. When you cannot afford to make a mistake in filling a critical position like that of a CFO, it is best to use a referral network or an industry-specific, retained recruiting firm that specializes in your sector.
2. **Sending the candidate away without homework.** At some point in the interview process, you should always assign homework to the candidate; i.e., the creation of a financial business plan for what he or she would hope to accomplish during the first 90 days on the job. This gives you a better understanding of the candidate's thought process and passion for the position.
3. **Hiring candidates who remind you of yourself.** Always hire employees who compliment your skills. As an entrepreneur, you're inherently a risk-taker, so hiring a carbon copy of yourself could result in a CFO who takes too many chances.
4. **Forgetting to use benchmark tools.** Use personality profile tests to benchmark your company's top performers and compare them with the job candidates. Over the years, we've had impressive results from tests like Caliper and DISC.
5. **Not field-testing your candidates.** Would you buy a car without taking it for a test drive? It's important to invite the candidate to spend a day with you in your office to evaluate the potential fit, as well as judge how they get along with your team.

Ultimately, the CFO you hire says something about you to your clients and customers. As Dr. Bradford Smart wrote in his book, *Top Grading*, "The ability to actually hire the best is what distinguishes premier companies from mediocre ones."

Deam is the CEO of Roys & Associates, an executive search firm that specializes in recruiting for emerging-growth companies in the technology, life sciences and renewable energy industries. E-mail Deam at **deam@roysandassoc.com**.

## USING METRICS FOR CFO HIRES

**BEN BALDWIN**
EO TORONTO

As the owner of a hiring software firm, I know how hiring mistakes can impact good companies. On the surface, a high-level employee like a CFO can seem extremely qualified, but it doesn't take long before you notice the warning signs, like flexible ethics and insubordination. Honesty, integrity and ethics are important for all employees, but they are absolutely critical for the CFO. You may not always like the news you're getting, but it's much better when you know you can trust it.

Three years ago, I hired Jamie, my first "C-level" employee. We started him in the role of CFO, and thankfully, everything worked out. Hiring Jamie was one of the best decisions I ever made, but it could have easily been the worst. How did we avoid a bad hire? I focused on the metrics. A good friend is the head of scouting for a Major League Baseball (MLB) team, and I've always been fascinated with his ability to analyze players using statistics. Unlike MLB scouts, hiring managers measure a worker's behavioral attributes, not his physical attributes. I've found behavioral statistics to be incredibly useful and accurate at helping to predict future job performance.

Here are three ways any EO member can hire a great CFO by leveraging the right metrics:

1. **Build a hiring checklist to capture what outputs and behaviors you're looking for from your new hire.** Be as objective as possible; there are free online tools to help you determine these behavioral metrics, like SHL's Occupational Personality Questionnaire.
2. **Use a hiring assessment to determine how candidates score relative to behavioral norms of top-performing CFOs.** It's important to select an assessment that detects when someone is trying to manipulate their employment application to appear more desirable than they really are.
3. **Implement a consistent interview template and scoring guide that will help you uncover past achievements that demonstrate an ability to accomplish your desired outputs.** It's also important to ask behavioral interview questions for those attributes where your candidate strays from the top-performing CFO norm.

Hiring the right CFO has helped us drive successful growth, but hiring the wrong one would have been disastrous for our business. Now when we hire for a position at this level, we're clear what we're hiring for, we follow a standardized hiring-selection process and we measure job fit by utilizing metrics-based tools. Following these simple steps helped us hire a winner and avoid hiring a dud.

Ben is the co-founder of ClearFit.com, a hiring firm that offers patented software tools to make hiring easy for small businesses. To reach Ben, you can e-mail him at **ben@clearfit.com**.

# CASH IS KING

**WILLIAM J. LIEBERMAN**
EO NEW YORK

Cash is king. This cliché sounds trite, but after living through the Dot-Com downfall, 9/11 and the Great Recession, it's the single most important rule of the game for small, growing companies. I used to dread getting bad news from my sales team that a client was canceling or a high-profile deal fell through. I would scramble to figure out how to make the next payroll, which involved, on more than one occasion, borrowing against the equity in my home.

As a company, we have weathered many booms and busts over the years, and in the process, learned how to manage the fuel that drives the engine: cash. As a supplier to the finance industry, we have to make sure we're always on top of our game, especially when it comes to money. Like most things in business, this is easier said than done. Here are five lessons learned we share with clients regarding cash-flow management:

1. **Monitor cash-flow levels.** First, put in place a system to monitor your current and forecasted cash levels. This means that you need to have a firm handle on all incoming monies (i.e., receivables or external funding), as well as outgoing (i.e., expenses, payroll, rent, etc.). A spreadsheet is the easiest tool to use. Our model starts with a weekly forecast of collections by client, based on their historical payment patterns. We then forecast our upcoming vendor payments, giving us the best possible picture for the swings in cash levels. If I see any large swings to the negative, I can proactively manage those swings rather than react at the last minute.
2. **Stay cash-flow positive.** Do whatever is necessary to get cash -flow positive each and every month. Change your revenue model, increase fees, cut staff, cut salaries, cut discretionary and non-discretionary expenses— whatever it takes. This is the most important lesson we learned.
3. **Establish clear-cut processes.** Develop a formal process for managing your receivables. We've been able to reduce the average time that receivables were outstanding from 80 to 30 days, a level that is quite amazing given the nature of our business. How did we do this? We started with a communication loop that begins before a client sale is even closed. Our finance team is involved every step of the way and works directly with the sales, implementation and client-service teams. Clients are notified in advance of any changes and our contracts are quite clear on our billing policies. Any late-paying clients get a call from our finance team, and then from our relationship management team to determine if there are any service-related issues occurring.
4. **Develop a back-up plan.** If we forecast a cash crunch, we rally the team to determine a back-up plan. For example, a plan could include pushing payables out further than the standard 45 days, offering clients the opportunity to pre-pay for a discount on their fees, cutting non-discretionary expenses, etc. Also, we've worked hard to develop a relationship with a commercial lender, so that we have a credit facility in place that enables us to draw down funds on an as-needed basis, backed by our receivables.
5. **Rely on your advisors.** Make sure you have external advisors that you can turn to for assistance or advice. Having a group of trusted advisors that have experienced similar pain and suffering is absolutely critical. While they cannot help you avoid every pothole, they can help you minimize the damage. For many members, Forum serves as a great starting point. I also rely on my board of directors for help, among others.

We've learned a lot of valuable lessons regarding cash-flow management, but the above five helped us stay on top of our financial future. Today, we remain focused on both profitability and cash flow. By doing so, we have doubled our cash cushion in the past six months, and even better, I no longer have to worry about making payroll. I can now focus on growing the business instead of trying to keep it afloat, which is the ideal position for any entrepreneur.

William is the CEO of Xtiva Financial Systems, a software company that sells incentive compensation solutions to financial services firms. To reach William, you can e-mail him at **wlieberman@xtiva.com**.



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# FOUR WARNING SIGNS OF FINANCIAL SUICIDE

**RUSSELL HOLCOMBE**
EO ATLANTA

The entrepreneur is unique when it comes to financial planning, because risk is something we don't generally fear. Every day we survive on the frontlines of business by taking the kind of make-or-break risks most people can't even imagine. It can be rewarding, but there is also an eventual cost to this behavior: the potential for a financial suicide. Running up US$50,000 on credit cards to make payroll, for example, can only last so long.

As a financial advisor, clients often arrive in my office with critical business wounds— wounds called "cash flow," "liquidity" and "leverage." In the past 15 years, I have met countless entrepreneurs on the brink of financial destruction. Depending on when I met them, I've been able to save many. The truth is most financial disasters are clearly avoidable. The following warning signs are based on a tapestry of experiences. When life happens, these signs seem to be consistently involved in making bad events worse.

## WARNING #1: NOT ENOUGH PERSONAL RUNWAY

Cash flow for business is your oxygen— without it, you die. For entrepreneurs, having cash flow is analogous to knowing your "burn rate," or how fast you burn through your cash. Most entrepreneurs know their business burn rate like it's tattooed to their foreheads, but when I ask about their burn rate at home, an uncomfortable silence ensues. Survival requires having sufficient cash to live through the rough times.

## WARNING #2: INFLEXIBLE FINANCIAL MUSCLES

Imagine what would happen if you lost all flexibility in your body. Likewise, without financial flexibility, bad things happen. Take the entrepreneur who purchased a Beechcraft King Air 350, for example. The plane was extraordinary, but so was the expense. In business, we categorize overhead into two categories: fixed and variable. This plane met the definition of a fixed expense. However, when a crisis occurred and the plane had no buyers, the owner's only option was to liquidate his retirement plan in order to live. Any expense in our personal lives that cannot adjust to real-time circumstances should be approached with extreme caution.

## WARNING #3: ABUSING YOUR LEVERAGE

Leverage is like steroids— it accelerates our ability to accomplish our goals, but not without risk. Just like steroids, the abuse of leverage can have severe side effects. Take, for example, the entrepreneur that purchased the million-dollar beach home and took on a US$800,000 mortgage. Her business was making headlines and her cash flow approached US$1 million per year. The mortgage was a pittance in comparison. Now, because of a mortgage payment on a second home she can't sell and a business that is struggling to make it through the recession, she's miserable. When you're in the risk business, leverage at home amplifies the bad event at your company.

## WARNING #4: THE MIRAGE OF NET WORTH

A mirage occurs when light rays are bent to produce a displaced image. Desert travelers often mistook the glare of the sun on the desert floor for the water they desperately needed to survive. Similarly, net worth creates the mirage of survival. I have worked on countless financial suicides with massive balance sheets. Unfortunately, none of it was liquid. I have seen several situations where entrepreneurs couldn't even turn US$300,000 of it into cash to fight a battle with their former partners. The moral: While you may have a sufficient net worth, if you don't have immediate access to your cash you don't have a runway.

Understanding your personal burn rate and its flexibility is half of your survival. The other half is having little or no leverage, cash flow and liquidity. If good fortune finds you, I hope these warning signs will help you make smart financial decisions for you and your family.

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Russell (pictured) is the founder of Holcombe Financial, Inc., a firm that helps individuals with assets between US$3-20 million. Russell is the author of the forthcoming book, *You Should Only Have to Get Rich Once*. E-mail Russell at **rusty@holcombefinancial.com**.

# MAXIMUM CASH, COMFORT AND CONTROL

**SUSAN SCHRETER**
EO SPEAKER

If there is a lesson to be learned from the current economic recession, it is the value of running a well-capitalized company. Whereas debt has spelled disaster for too many highly leveraged businesses, equity offers a healthy measure of resilience. Of course, the downside of involving investors is equity dilution and the potential loss of creative control, but there are ways around that. Here are six strategies to help you get what you want most in business: maximum cash, comfort and control:

1. **Upgrade your board of directors now.** Ideally, privately held businesses should upgrade their board of directors every four or five years to match advancing business goals. As entrepreneurs, it's important for you to pick your team, preferably with targeted industry expertise. Skip friends and family members— "weak" boards always get overhauled by new investors. In subtle but meaningful ways, these new members will be more loyal to the financial investors than the business founder.

2. **Get an employment contract.** How can business founders get fired from the companies they started? It's easy: when they lose voting control of the company's shares and the loyalty of the company's board of directors. One way to minimize the risk of getting fired from your own company without cause or adequate compensation is to negotiate a "reasonable" employment contract with your company's board of directors prior to raising capital. New investors typically receive one or more board of directors' seats as part of their funding agreements, which can change the overall voting dynamic of a board. If a company's sales and profits don't meet projections, impatient new board members can push for management changes. Again, business owners are likely to get a better deal from the board members that they invite to the board, not investors.

3. **Hire qualified talent.** Every time business owners put unproven staff in demanding positions, they jeopardize their equity stake. Here's why: The longer it takes a company to meet product development schedules or bring in profitable sales, the more money founders may have to raise in order to cover added operating costs. More capital infusions mean an increased dilution for the founder. Don't waste time or money on "so-so" employees.

4. **Set aside stock options.** With the board of directors' approval, companies can set aside a certain number of treasury shares for an employee-stock-option plan. Because founders can receive annual stock-option awards for good performance, stock options can help founders buy back their equity stake long after the company no longer needs investment capital.

5. **Explore "earn backs."** To the extent business owners accept what they perceive as a "low" valuation to secure expansion funding, founders can ask investors to escrow or set aside a certain number of shares to reward exceptional performance. If management doesn't meet agreed targets, then the lower valuation holds. If management beats projections, then the founder earns back a slice of the company's equity pie.

6. **Pay attention to preferences.** Most business founders get hung up on negotiating their company's current worth, or its "pre-money" valuation. I say, pay equal attention to preferred stock "liquidation preferences." When a company grows to a lucrative sale, preferred shareholders get paid one or two times their original investment before common-stock-holding founders receive a penny. Investors can also add to their percentage equity stake with annual stock dividends that accumulate year after year until the company is sold. Again, founders have to wait in the wings until investors get their liquidation preference multiple, plus all of the accumulated stock dividends. Ouch!

These are just a few of the key steps entrepreneurs can take to ensure they get the kind of cash, comfort and control they seek in business. Ultimately, the best way to maintain control of your company is to capitalize it well and not hide problems from investors or board members. If you collaborate as partners, not enemies, you'll set yourself up for a successful—and profitable—future.

Susan, a former EO member, is a 20-year veteran of the venture finance community, and a university educator in entrepreneurship. She recently launched Takecommand.org, a community-service organization that teaches entrepreneurs how to fund their businesses. Susan last spoke for EO in 2003. E-mail Susan at **susan@takecommand.org**.

# **GLOBAL** LEARNING **CALENDAR**

## JUNE

### EO/MIT ENTREPRENEURIAL MASTERS PROGRAM
**Class of 2011, Year 2 | 16-20 June 2010**
**Class of 2010, Year 3 | 23-27 June 2010**
Dedham, Massachusetts, USA

## SEPT

### 2010 EO LEADERSHIP ACADEMY
**19-22 September 2010**
Washington, DC, USA

## OCT

### 2010 EO GLOBAL POLICY SUMMIT
**17-20 October 2010**
**Registration opens in June!**
Washington, DC, USA

## NOV

### 2010 EO CAPE TOWN UNIVERSITY
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## NOV

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## APR

### 2011 EO TEXAS UNIVERSITY
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# QUOTED & NOTED

## EO Beijing Meets with British Ambassador

Recently, the British ambassador to China, Sebastian Wood, accepted an invitation from EO Beijing to discuss the role of British entrepreneurship in China. The group discussed the challenges of starting a business, expansion and enjoying the fruits of one's endeavors.

## Member Inducted into Hall of Fame

EO Chicago member Tom Gimbel was recently inducted into the Entrepreneurship Hall of Fame at the 25th annual Chicago Area Entrepreneurship Hall of Fame Awards. The awards represent the most innovative entrepreneurs in Chicago's seven-county area. Tom is the founder and CEO of LaSalle Network, the fastest-growing staffing, recruiting and executive search firm in Chicago, Illinois, USA.

## Sydney Member Interviewed by *SmartCompany*

Jo Burston, an EO Sydney member and CEO of Job Capital, was recently interviewed by renowned business publication, *SmartCompany*. In the article, Jo recounted the early days of building her successful business and gave a few tips for aspiring entrepreneurs based on her own experiences being mentored by a serial entrepreneur.

## Food Expert Spotlighted Online

Chuan Kok "C.K." Tan, an EO Malaysia member and CEO of Munchy Food Industries, was recently profiled by theStarOnline.com in a lengthy editorial. In the article, C.K. talked about his entrepreneurial journey, the Asian financial crisis and the future of his business.

## UAE Member Talks EO on the Radio

EO UAE member Rohan Shetty recently discussed the perks of EO membership on Dubai Eye, UAE's premier talk-radio station. Rohan addressed the importance of Forum, promoting ongoing dialogue between entrepreneurs and contributing to the regional economy. Rohan is the founder and chairman of the Kellett & Singleton Group. Visit **http://dubaieye1038.com/1354/rohan-shetty/** to hear his interview.

## Member Named to Top 100 List

EO Dallas member Johnette van Eeden's company, Lone Star Screening, was recently selected as one of the Top 100 Women-Owned Businesses in Texas, USA, by DiversityBusiness.com. Johnette's business was chosen from 650,000 companies across the US. The awards are based on annual gross revenues and business profiles.

***Share your news with your EO peers by sending a detailed e-mail to octane@eonetwork.org. Please include a 300-dpi headshot with your submission. For more member news, visit www.eonetwork.org/press/mitn.***

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