



SECTION 1: THE BASIC FOUNDATIONS

It doesn't matter how large you are, how long you've been in business, or if you are just starting out. The basic structural elements we've compiled here are the elements that are critical to avoid catastrophes down the road.

These building blocks provide the foundation for future success, so even if you can check

off some items in subsequent sections – make sure you have these basics in place.

These basics are:

- 1.) Having enough cash to survive
- 2.) Make sure you aren't wasting money on taxes due to ignorance
- 3.) Make sure you have some basic protections in place
- 4.) Have some alignment on where the company is going.

Survival Cash in the Business

While there are stories of successful entrepreneurs who took their bank accounts in the negative or were down to the last \$100 before hitting it big, there are many, many more failures.

Most businesses fail due to running out of cash or never generating enough cash to get the founders out of fight or flight mode. And when you are in fight or flight mode, wondering how you'll make payroll, pay your mortgage, or which bill you need to pay to avoid a disconnect, you can't focus on what you really need to focus on – growing the company.

So critical foundation number one is ensuring you have access to survival cash, which in our experience, is one payroll.

Access to survival cash can come in many forms:

- Cash in the bank (the best)
- Company line of credit (second best)
- Home equity line of credit (or line of credit against pledge assets, like an investment account (third best)
- Credit cards (fourth best)
- Commitments from friends and family (fifth best).

By definition – what this means is that at your worst – you will always have access to a payroll in the bank. Hopefully you won't need it, but if you don't have at least this available, you will be unable to get out of flight or fight mode and the emotional toll it takes on you will reduce your ability to do what you really enjoy and need to be doing – growing your business.

Key takeaways:

- a.) If you don't have credit availability that covers off at least one payroll, get it from one of the sources above.
- b.) Model in the ability to save enough cash to cover one payroll thru profits and execute on this savings plan – despite the allure of 'hiring the next great hope' or 'executing the killer marketing plan.' Once you have the savings – you can do all that stuff – but actually be able to execute because you won't be worried about surviving another payroll.
- c.) Don't Waste Money on Avoidable Taxes (or Forget to Budget For Taxes)

It doesn't matter how long a company has been in business, when a new client comes to us, we always find something they left on the table. And it's always in one of these key areas to address:

- You are deducting every allowable owner fringe benefit (we have [a checklist](#) for that in a separate guide and [video](#)).

- You are paying yourself correctly, which means you are taking advantage of the lower rate of a dividend or distribution payment relative to a salary payment in a W-2.

- If tax credits are available for you (or special deductions for your industry) you are taking advantage of them.

- Depending on your timeline to sell the company, you are set up to minimize or potentially avoid capital gains taxes.

- Make sure you are properly using the right company entity structure to minimize your tax liability (e.g. if an LLC taxed as a partnership – would having an S-Corp hold your partnership interest be of tax benefit).

Make Sure Your Family and the Company Are Protected

Entrepreneurs believe they are invincible, or that nothing bad will happen today. Yet it does. There is the ultimate catastrophe, an untimely death, but there are also many other bad things, like a trusted business partner has a substance abuse problem that they won't address, or you found out that you are in business with a narcissist, and you now have a toxic work environment and cannot retain people.

Make sure your basics are covered in these departments:

- Operating agreements clearly and correctly reflect what should and would happen in the event of death, divorce, or removal for cause.

- Life insurance, and ideally, disability insurance is available and sufficient to cover a catastrophe with an owner. Generally sufficient life insurance will cover any company outstanding debt, any personal debt, and provide income replacement for 5 – 10 years for the family. If you can get better – great! But these are the basic minimums to target.

- Have a set of instructions of what should happen in the event of death or incapacitation (e.g. how to log into bank accounts, what is critical to execute for a few weeks, like create invoices, run payroll).

With the first bullet – removal for cause – don't leave it vague if you have a partner. Have a clear set of behaviors and notices to ensure parting ways is never a surprise. Odds are you won't have a relationship with the partner you removed later, but you will be able to hold your head up high. It is uncomfortable to have these conversations about what could go wrong, but the good news is that you only have to have them once. That's way better than years of misery working in a toxic environment. It's also uncomfortable to think about death or incapacitation. That said – your family will thank you that you did, if your instructions are ever needed!

These are your basic foundational elements. No matter where you are in your business journey, take the time to cross these off your list of to-do items so they don't cause problems for you down the road. You'll thank us later!

Have Alignment:

Don't worry too much about having a detailed, well thought out strategy. At least have a few bullets that can provide some guiding principles of where you are going. If you want to build a 100,000 employee empire, but your business partner wants to only have 10 employees, you might have a problem. Better to figure that out now rather than years from now when you are both miserable with each other.

CHECKLIST: SECTION 1

Section One – The Basic Foundations Survival Cash in the Business:

- Ensure access to one payroll's worth of cash or credit.
- Create a savings plan to accumulate one payroll's worth of cash.

Avoidable Taxes:

- Deduct all allowable owner fringe benefits.
- Pay yourself correctly (dividends vs. salary).
- Utilize industry-specific tax credits or deductions.
- Set up your business to minimize/avoid capital gains taxes.
- Confirm your business entity structure is tax efficient.

Protection for Family and Business:

- Create/update operating agreements for contingencies (death, divorce, removal).
- Secure adequate life and disability insurance.
- Document critical instructions for emergencies.

Alignment:

- Draft guiding principles or high-level strategy.
- Ensure alignment with partners on business direction.