The 9 Deadly Mistakes Business Owners Make When Starting Their Business

I’d like to start this presentation with a question.

“How Much Are You Willing to Risk For Your Business?”

As an entrepreneur myself I know from experience; people like you and me are hardwired to undertake greater levels of risk than the average person.

But you need to ask yourself, is the thrill of business and investing really worth risking:

- Being hounded by creditors?

- Being hounded by creditors? **Declaring bankruptcy?**

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  Paying more than your fair share of interest on your loans?
  Losing your house?
  Or generally endangering the overall welfare of your family?

If you answered “no” then I have may have some bad news for you…

Because, if you’re like most entrepreneurs, investors, and business owners I’ve consulted with, you’re in danger of facing all of these terrible problems…

And it’s all because of your <u>business.</u>

I’m **<u>not</u>** judging.
To be perfectly transparent, I’ve been guilty of it, too.

When I started my last business I made just about every mistake I’m going to share with you today.

At the time I didn’t know any better. It’s been my experience that most of us don’t. That’s just the point.

In fact, that’s why I created this video series for you.

In this presentation <u>I’m going to show you where the pitfalls are in the road ahead so you don’t fall into any of them.</u>

Don’t take the information I’m about to share with you lightly just because its free.

Make any one of these mistakes and one day you may wake up unable to qualify for a mortgage…

Or you’ll miss out on that to-die-for financing offered on the new car you’re buying…

Or you'll find yourself hounded by creditors…

Or worse yet, you may have to declare bankruptcy.

Never lose focus on what your business is for…

It’s to put money in your pocket, clothes on your back, food on the table, and a roof over your head.

A business should provide security for your family. It should be a vehicle for building wealth for generations to come.

You should constantly be working to build your business to the point that it can secure its own funding, so that you never need risk your family's wealth or credit *ever* again.

Do I have your attention?

Then here are the 9 deadly errors that can bury your business, smother you in personal debt, and destroy your financial future.

Deadly Mistake #9 - Using Personal Credit to Finance Your Business

The hands-down biggest and most common mistake entrepreneurs make is using personal credit to finance their businesses.

Common examples include:

- Paying for business expenses with your personal credit cards
- Obtaining personal loans to finance your business expenses

If you’ve used one or more of these financing methods to fund your entrepreneurial ventures, I’m not surprised.

Shockingly, many business-start-up “experts” recommend these methods for funding new businesses.

Their advice is well-intentioned, but nonetheless incredibly dangerous nonetheless.

The reason for not using your personal credit for business purposes is simple…

You WILL destroy your personal credit.

It’s inevitable.

By using your valuable personal credit for business expenses, you run the risk of:

1. Lowering your personal credit score. When you personally guarantee business-related financing, the lender will require a personal credit check. Every time an inquiry into your credit history is made, your personal credit score takes a hit.

The lower your score drops, the harder it is to secure financing… especially financing with the most favorable terms.

2. Reducing the amount of credit available for personal use.

The more credit you have personally guaranteed for your business, the higher your debt-to-income ratio soars … and the less that lenders will be willing to give you for personal use.

Signing that loan for your business could prevent you from getting a mortgage on the new house you plan to buy a year from now.

3. Losing <u>everything</u>.

When you use your personal resources or credit to finance a business, you chain your financial security to your company's success.

If the company fails, you'll be left holding the bag … and your personal finances will sink along with your business. You'll never recoup the "loan" you took from your retirement account to get your business launched.

Creditors will be calling you for payment. And if things get bad enough, you may have to declare bankruptcy.

To protect your financial security, don’t use your personal credit to finance your business activities.

Instead, **take action to secure credit in your company's name** so you can secure financing WITHOUT risking your personal assets, lowering your personal credit score, and eventually, without a personal guarantee.

Deadly Mistake #8 - Putting Personal Assets at Risk

Each time you pledge your personal assets for any type of credit extended to your business, you jeopardize your personal belongings, such as savings and investment accounts, your car, and even your home.

If your business can’t pay off its debt, the bank will come looking for you to make good on the loan.

A business entity established as a sole proprietorship is most susceptible to this risk.

Although you can build business credit as a sole proprietor, you will be completely liable for all personal and corporate debt.

Your credit history will be based solely on activity associated with your social security number because you will not have a corporate tax ID number.

As a sole proprietor, you also have no legal means for separating corporate and personal credit.

The best way to protect your personal assets is to incorporate your business.

You’ll shield yourself from personal liability for the company’s debts and typically will also reduce your tax burden.

Deadly Mistake #7 - Contaminating Your Personal Credit

When people marry, they vow to share their lives. For some good-hearted but financially naïve couples, this means sharing personal credit.

Unfortunately, adding your spouse to your credit isn’t a show of undying loyalty and devotion. It’s credit file contamination – an almost unforgivable sin if you’re a business owner.

When you initiate joint credit, your spouse's credit history becomes part of your credit file. If your spouse misses a payment, the delinquency affects your credit.

The matter is complicated further if you haven’t taken steps to separate your personal credit from your company’s corporate credit.

Credit file contamination created by a spouse’s credit history could easily keep you from achieving your business goals – because it will prevent you from securing the financing necessary to grow your company.

To avoid credit file contamination, keep your credit history completely separate from your spouse's history.

If your spouse ruins his or her credit, then you’ll still have a good credit history to support your family, as well as your business.

Deadly Mistake #6 - Not Paying Your Bills on Time … 100% of the Time

You misplaced your credit card bill and sent in payment a few days late. It happens to the best of us, right?

Maybe so … but as an entrepreneur, you can’t afford even a single late payment….business or personal.

Your credit file is a complete history of your credit activity. Not paying your bills on time can ruin your credit file.

A single delinquency can be held against you for years and be used to constrict the extension of existing credit or deny new credit – ***which can make or break your ability to finance the launch, operation or growth of your company.***

There are two things you should do to protect yourself from this deadly mistake.

The first, obviously, is to ensure that you pay your bills promptly.

Second, keep your personal credit separate from your corporate credit. That way, problems with your personal credit history will have no bearing on your corporate credit.

But if you do not take all the necessary steps to separate your corporate and personal credit, problems with your personal credit file could directly affect your ability to build your corporate credit and your business.

Deadly Mistake #5 - Using Your Family's Money

When you use your personal credit card to buy business items, you instantly slash the amount of credit you have available to get the things you and your family need and want.

And if you, like many Americans, regard your credit cards as the financial cushion that will carry you through emergencies—such as an illness that makes it impossible to work-- wasting your credit on business expenses weakens your safety net.

Still, many entrepreneurs ignore the dramatic consequences of this dangerous practice…

They buy business-related items with their personal credit cards hoping to pay themselves back one day…

They obtain other personal credit cards, leases, loans and lines of credit and then use them for business expenses...

And, once their borrowing limits are maxed out, they persuade their spouses or other family members into using their credit to continue financing the business.

Be Forewarned: If you convince your family members to finance your business, you’re just digging a deeper hole for your family to crawl out of.

If your business fails – as 95% of business do in the first five years, according to the Small Business Administration – your family could be **wiped out** financially.

Don’t ask family members to use their personal credit to invest in your business. As we discussed in Mistake #9, using your personal credit to pay for business expenses is a strategic error.

And if it doesn’t make sense for you, the business owner, it makes even less sense for family members.

Keep everyone’s personal credit strictly separated from your company’s corporate credit.

Deadly Mistake #4 - Not Setting Up a Corporation and Building Corporate Credit… *the Right Way*

Many business owners are unaware of the value of incorporation.

Even fewer understand the essential steps necessary for building the kind of corporate credit that will enable them to take full advantage of their entrepreneurial status.

Incorporation makes your business entity separate from you, the business owner – a separate entity with its own liability.

Incorporation **separates** your business assets from your personal assets.

If someone decides to sue your company, they cannot touch your house, car, or anything else owned by you or your family.

But eliminating your personal liability for your company's debts and actions isn't the only reason to incorporate your business.

Let’s face it.

You are in business to make money.

And to make a profit and sustain your business, you need capital – in the right place, at the right time – to help your business grow.

By incorporating your business, you enable your business to begin establishing corporate credit, which will ultimately provide the funds you need to grow your business and one day get to the point where your business can obtain funding **without a personal guarantee**.

Keep in mind, this takes time to accomplish.

But incorporating your business doesn’t automatically qualify you for all the corporate credit you need, much less the best type of corporate credit.

Your goal should be to secure cash – not lines of credit that are tied to particular stores or vendors – **for which you do not need to offer a personal guarantee.**

To secure this “Holy Grail” of corporate credit, you need to follow a well-defined, step-by-step system to build your corporate credit history and business credit score. *(Hint: I’m going to show you how on the next video)*

Deadly Mistake #3 - Rushing the Process for Building Corporate Credit

Corporate credit can be an invaluable tool as you build your wealth; because it gives you the flexibility to invest money in ways that you have determined will help you build your business.

But just as it takes time and patience to build wealth, it takes time and patience to build the corporate credit that enables you to get cash from lenders without your personal guarantee. *Incorporating your business is just the start of the process.*

The industry standard for building corporate credit to the point where you can secure cash without a personal guarantee is two to three years, but the process I’m going to show you how you can get the corporate credit you need in as little as **120 days**.

Then I’ll also show you the steps to position your company to qualify for no personal guarantee forms of credit.

Deadly Mistake #2 - Not Following Up on the Credit-Building Process

Once they begin to follow the prescribed process for building corporate credit, many entrepreneurs simply don’t do enough follow-up work.

But if you don’t keep track of your progress during the process of building excellent corporate credit, you may miss key elements that could make the difference between getting the cash line of credit you need … or being denied.

It is always a good idea to delegate, especially if you are busy. But you have to be careful as to which kind of work you delegate.

The work that directly affects the growth of your business and your wealth deserves your personal attention.

Deadly Mistake #1 - Not Recognizing Opportunity Costs

At the first sign of profits or the first influx of credit, many business owners spend more than they have – or even more than they will make – on material goods.

Lured by the luxury car or exotic vacation they've lusted after for years, they ignore long-term business goals in favor of temporary and immediate gratification.

But if you want to achieve your long-term business goals, recognize that corporate credit and profits should only be leveraged to create greater gains for your business.

Instead of figuring out how much profit you can take out of the business, **seek ways to invest your earnings so that it will deliver greater returns for your business.**

Do this right and you won’t be renting that luxury boat. *You’ll own it.*

Now that you know what NOT to do, in my next presentation I'm going to show you the **Business Credit Asset Blueprint** so you can start building your business credit the right way.

Before you go, take a moment and let me know what you thought of this video.