Working Title: Debt's Dirty Little Secrets

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Do you know how much your business owes and to whom? Do you know the true cost of your business' debts?

Wouldn't you like to know?

At the end of every month, when the bank takes a slice of your business' income, do you really know how much you're paying and at what interest rate? For many business owners the last thing they want to worry about is debt. It's complex and just a little frightening. That's understandable but those debts can have a big impact on your business. Managed well, your business' debts are a useful tool in accruing business value and creating sustainable growth. Managed badly and your business' value can plummet.

Let's start at the beginning by trying to understand what debt is. It's defined as 'something that is owed or that one is bound to pay to or perform for another'. Pretty straightforward, you might think, until you consider that this goes far beyond paying off interest and capital on a loan. The key term here is 'bound to pay'. What is your business 'bound to pay'? Here's a list to get you started. It might open your eyes a little:

- Staff salaries.
- Shareholder salaries.
- Your creditors.
- Leases on equipment, property and vehicles.
- Pension contributions.
- Property taxes on your business' buildings and land.
- Statutory healthcare costs for employees.
- Statutory insurances, like public liability.

You're 'bound to pay' for all of this yet how often do you include these items when you consider your business' debt position? Remember that this isn't an exhaustive list and your business might have other hidden debts that you've never recognized as such.

Then you have the issue of costs and fees. I'm not just talking about an arrangement fee for a loan but the hidden costs. Every time you set up a new loan you should include the cost of your business' resources used to arrange it. The more complex the arrangement, the more time consuming and resource intensive the process becomes. Complexity equals time which equals higher costs to your business.

Here's another dirty little debt secret. Your lender, be it a venture capitalist or a bank, can impose on you conditions that you might not, at first, recognise as costs, but they are. Bring in money from a venture capitalist and they'll want more than just a quick return on their investment. You'll find your business decisions being queried and challenged. Quite probably a new face could appear at your board meetings who'll have their own ideas as to how the invested capital should be spent. Banks will want regular updates and evidence of the business' progress, adding to your costs through the necessity of producing audited financial reports. There will be increased costs and pressures that might not directly equate to cost but will put a measurable strain on your business.

Personal guarantees for finance might be required. Are you prepared for the cost of putting your own home up as collateral for a loan? At the very least you will be looking at a valuation and a survey, which you or your business will have to pay for. Also, there's the emotional cost of risking your family's home and the knowledge of the consequences of failure.

Debt comes in all shapes and sizes. Sometimes it doesn't even look like a debt until you peel back the wrapper and look inside. And along with debt comes the hidden costs; monetary, emotional and resource based. Only by getting a good idea of what your business has in the way of debts, and the associated costs, can you truly get a handle on the true value of your business.

You cannot afford to risk your business' future by ignoring the subject of debt. Instead, embrace it and learn to accept it. Look upon it as a tool and not a burden.