

Strategies For An Economic Downturn

Challenging economic times and market uncertainties can be especially daunting to small businesses. But the reality is that there are a number of steps business owners can take to thrive and survive. Managing cash flow, cutting costs, and refocusing marketing are key areas to address.

Solve any immediate cash crisis

- ◆ Organize financial data in one place
- ◆ Make a list of the problem areas
- ◆ Set priorities for collections and payables

Collect accounts receivable

- ◆ Bill customers as soon as possible
- ◆ Use aging reports to manage and project cash flow
- ◆ Begin collection for overdue accounts approaching 90 days
- ◆ Pick up large checks in person, if possible

Set firm credit policies

- ◆ Require cash payment at time of service
- ◆ Make all invoices due within 30 days
- ◆ Send collection letters at 30, 45, and 60 days

Contact creditors

- ◆ Prioritize who to pay first (e.g., IRS, bank, landlord)
- ◆ Complete a cash flow forecast before setting a payment plan
- ◆ Offer partial payments and keep payment promises
- ◆ Renegotiate existing payment terms
- ◆ Consolidate existing debt
- ◆ Request interest-only payments

Adjust prices and reduce costs

- ◆ Be competitive in pricing and value
- ◆ Revise pricing to improve sales and profits
- ◆ Charge extra for value-added services
- ◆ Eliminate discounts and giveaways
- ◆ Ask for rent reduction or restructure to allow a short abatement period
- ◆ Rent out unused space
- ◆ Reduce personnel expenses (hire part-time, eliminate overtime, etc.)
- ◆ Ask suppliers for trade discounts
- ◆ Reduce personal expenditures (travel, entertainment, etc.)
- ◆ Sell unproductive assets

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Manage inventory

- ◆ Review inventory levels monthly
- ◆ Liquidate everything that has been on the shelves more than 90 days
- ◆ Restock shelves with faster-selling items

Require accurate and timely accounting

- ◆ Create and interpret financial statements
- ◆ Review financial statements regularly to make timely management decisions
- ◆ Forecast short-term cash flow

Establish checks and balances

- ◆ Implement financial controls
- ◆ Enforce cash-handling policies
- ◆ Review financial reports monthly
- ◆ Reconcile daily register close-out with bank deposits and credit card transmittals
- ◆ Prevent opportunities for embezzlement
- ◆ Divide financial responsibilities and functions
- ◆ Require checks to have two signatures, if possible
- ◆ Limit check endorsements to the owner
- ◆ Examine payroll records for accuracy

Focus on marketing

- ◆ Continue to invest marketing dollars
- ◆ Redefine the core target market and think about a niche focus
- ◆ Look for complementary areas requiring minimum start-up capital
- ◆ Reassess your marketing strategy
- ◆ Keep in touch with current and past customers
- ◆ Ask for referrals
- ◆ Repackage services to accommodate smaller clients and reduced budgets
- ◆ Examine the best and least costly way to contact customers
- ◆ Watch for new trends and look for opportunities to provide solutions

Pay attention to your retail image

- ◆ Appearance counts—clean it and paint it
- ◆ Keep window displays fresh
- ◆ Add lighting to highlight product displays
- ◆ Clean and install new carpet
- ◆ Re-merchandise products and shelving
- ◆ Install attractive and descriptive signage
- ◆ Train employees to deliver top-notch customer service

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Set critical business policies

- ◆ Decide on behavior that is essential for business success
- ◆ Set policies for customers and suppliers that will contribute to your success
- ◆ Set policies for employee behavior that meet customer expectations
- ◆ Hold everyone accountable

Be an effective business owner

- ◆ Refine your business skills
- ◆ Attend workshops in subject areas where you need support
- ◆ Invest time in solving problems
- ◆ Make a commitment to improve
- ◆ Communicate with customers, employees, and suppliers
- ◆ Talk with other business owners—you are not alone

Times of change can also be times of opportunity but careful and thoughtful research and action is critical. Contact your local SBDC for more information and assistance. To find your local SBDC go to <http://www.virginiasbdc.org> and click **Virginia SBDC Offices**.