Ask Andi
Trusted Advisor to Business Owners

How big is your room for error? 10/13/08

Talk about credit markets drying up has me very concerned. We rely on our credit lines to make payroll and cover shortfalls in low revenue months. We could end up scrambling if we can't make payroll or pay our bills. I know you've been talking a lot about managing the business through this challenging market cycle. Can you talk further about managing with and without credit?

First let me re-state. This is a great time to be a small business owner and entrepreneur. You control your company's destiny. Yes, there's a cash crunch. Yes, your customers may be paying slower and your vendors may be squeezing you to pay faster. Even so, you can be nimble and work on solutions. You have to pay attention and play the game of business very well to come through this period unscathed. But you do have control of what you do – and that's a lot better position to be in than a lot of people who suddenly find themselves out of jobs.

Let's get to work on solutions to managing the business without credit. Knowing what you can afford is essential. Operating without a presumption of debt is healthy. Building a warehouse of reserves to see the business through tough times is just plain good business. And self funding growth and development, using a slow, steady expense plan will keep you safe.

Especially in down markets, you want to get good at playing the game of entrepreneurial business. One tool that will help your business excel is an accurate picture of spending needs – past, present and future. The second tool is a good forecast of income – low, medium and high. Put these two tools together in a variety of combinations and you'll begin to see how your company's finances could look under different conditions.

For example, if you typically take on 15% to 20% growth, you might use 15% as the medium income forecast, 20% as the high, and pick a lower number, between 5% and 10% to predict the low growth track. Obviously expenses will need to vary to match each growth track. If any of the growth tracks show a negative net income, make expense adjustments. Figure out on paper where to make cuts. That way, if the track starts to play out in reality, you already know how to respond.

Be sure to include putting money into reserves in each budget / forecast scenario. If you have limited reserves, do what you can to increase them. Try to get 1 month, then 2, then 3, of expenses into savings. Put away 5% - 10% of every deposit that comes in. If you put money away as it comes in the door, you'll be less likely to spend it.

One of the best actions you can take in a down market is to build up reserves. Here are some ways you and do that. Cut all excess overhead. Negotiate price concessions with vendors. Slow down development programs. If you have to, go to interest-only payments on loans. Don't slow down sales programs. Do cut back on marketing programs that are delivering fewer leads / dollar spent.

Be careful about taking financial risks. Yes, I know the saying, "it's time to buy when blood is running in the streets". That applies only if you have more than enough money to risk. Measure the depth of your savings accounts before you go out on a limb. Make the assumption that you won't be able to get more credit.

Learn to live within your means. It's preferable that you put your company on a spending diet, as compared to waiting for the bank to tell you to do so. And it's even better if, at the end of a credit crisis, you're sitting on a pool of cash, which you can use to leap forward as things loosen up.

Remember that competitors who are less well prepared will have difficulty hanging on. You may be able to pick up anything and everything, from equipment, to talented personnel, to clients who are looking for other options. Build up cash reserves so you're prepared for an acquisition of personnel or another company, if the opportunity presents itself.

This year, don't worry so much about cutting taxes by spending every cent of profit that you have at the end of the year. It will be preferable to have cash on hand going into January. You want to have enough money in the bank that you can afford to operate, fund next year's marketing plans, and sleep at night.

Whatever you decide to do, remember, tough times always do turn around. Hang in there. Be fiscally prudent. Protect your company's bottom line.

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If you are a business owner and you have a question or would like to discuss some aspect of your business, call 1.877.238.3535 or send an email to AskAndi@StrategyLeaders.com.

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